



Federal Small and Medium Manufacturing
Industries Development Agency, GoE



The World Bank

Small and Medium Enterprises Finance Project SMEFP

Project Implementation Manual

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Acronyms

AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
ATM	Automatic Teller Machine
AWPB	Annual Work Plan and Budget
BDS	Business Development Services
CFAs	Credit Facility Agreements
CJC	Competitive Job Creation
CPS	Country Partnership Strategy
CQS	Selection Based on Consultants' Qualification
DA	Designated Account
DBE	Development Bank of Ethiopia
DFID	Department for International Development
EDRI	Ethiopian Development Research Institute
EEP	Ethiopian Electric Power
EIB	European Investment Bank
ESMS	Environmental and Social Management System
EU	European Union
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FI	Financial Intermediary
FISF	Ethiopia Financial Inclusion Support Framework
FM	Financial Management
GoE	Government of Ethiopia
GPII	Global Partnership for Financial Inclusion
HR	Human Resources
IBRD	International Bank for Reconstruction and Development
ICs	Individual Consultants
ICB	International Competitive Bidding
ICR	Implementation Completion Report
IDA	International Development Association
IFAC	International Federation of Accountants
IFRs	Interim Financial Reports
IIWG	Investment and Infrastructure Working Group
ISA	International Standards on Auditing
IT	Information Technology
LAT	Loan Approval Team
LCS	Least-Cost Selection
LEMS	Mauritius Leasing Equipment Modernization Scheme
LOC	Line of Credit
M&E	Monitoring and Evaluation
MDI	Multi-Donor Initiative
MFIs	Micro Finance Institutions
MIS	Management Information System
MoFEC	Ministry of Finance and Economic Cooperation
MoI	Ministry of Industry
MSME	Micro, Small, and Medium Enterprises

MTR	Mid-Term Review
NBE	National Bank of Ethiopia
NCB	National Competitive Bidding
NPLs	Non-Performing Loans
OM	Operations Manual
PAD	Project Appraisal Document
PDO	Project Development Objectives
PEPE	Private Enterprise Program for Ethiopia
PFEA	Public Financial Enterprises Agency
PFI	Participating Financial Institutions
PFSs	Project Financial Statements
PIM	Project Implementation Manual
PIC	Project Implementation Committee
PIU	Project Implementation Unit
PMT	Project Management Team
PP	Procurement Plan
PSC	Project Steering Committee
QCBS	Quality- and Cost-Based Selection
ReSMMIDAs	Regional Small and Medium Manufacturing Industries Development Agencies
RFQ	Request for Quotation
ROA	Return on Assets
ROE	Return on Equity
SDBs	Standard Bidding Documents
SFA	Subsidiary Financing Agreement
SIC	State Investment Corporation
SMEs	Small and Medium Enterprises
SMEFP	Small and Medium Enterprises Finance Project
SMMEDA	Small and Medium Manufacturing Enterprises Development Agency
SOEs	Statement of Expenditures
SPN	Special Procurement Notice
SRFP	Standard Request for Proposal
TA	Technical Assistance
TC	Tender Committee
TCA	Technical Cooperation Agreement
TOR	Terms of Reference
UNDB	United Nations Development Business
USD	United States Dollar
WBG	World Bank Group
WEDP	Women Entrepreneurship Development Project

I. INTRODCUTION AND PROJECT DESCRIPTION

1.1 The Project Implementation Manual

This Project Implementation Manual (PIM) presents the guidelines and procedures governing the implementation of the Small and Medium Enterprises Finance Project (SMEFP) which is financed by the World Bank, the International Development Agency (IDA) credit to the Government of Ethiopia with co-financing to be provided by European Investment Bank. The Project also provides technical assistance (TA) which is expected to be funded externally through Department for International Development (DFID), the Multi-Donor Initiative (MDI) and European Union (EU).

The Manual has been designed for identification of the main principles and mechanisms including the roles, functions, inter-relations and responsibilities of various organizations involved in the implementation of the SME Finance Project.

The Manual briefly describes the SME finance project development objectives (PDO), project components and result indicators. The Manual has six sections namely: Introduction and Project Description, Implementation Arrangement, SME Credit Line Implementation, Procurement, Financial Management, and Monitoring and Evaluation.

This PIM shall be used by all persons involved in administrative, financial management and implementation of SMEFP that are operating with financial resources of the International Development Association, European Investment Bank (EIB) and other donors.

All the PIM provisions pursue the following objectives: provide purposeful and efficient use of funds, clear and transparent reporting, transparent tenders, strong observance of procurement methodologies, and efficient implementation of the SMEFP components.

The approval of the Project Steering Committee and the World Bank (WB) “No Objection” gives a legal basis for adoption of this Manual. The PIM also can be changed in order to reflect new events or needs and ensure efficient implementation of the SME finance project only by prior agreement with the implementing agencies and the World Bank.

1.2 Project Background and Objectives

The recently completed “Ethiopia SME Finance Study 2014” through the combination of demand-side and supply-side analysis demonstrates the existence of so-called “missing middle” phenomenon in Ethiopia, whereby small enterprises are more credit constrained than either micro or medium/large enterprises. The study highlights the inadequateness of Ethiopian banks’ business models to address the financing needs of SMEs and the existence of severe limitations in the overall enabling environment for SME lending (e.g. the lack of a collateral registry; an underutilized credit information system and an inefficient insolvency and creditor/debtor

regime). The study also highlights the importance of lease finance as a complementary source of funding. Leasing can be an effective mechanism for boosting the Ethiopian economy by providing long-term finance to SMEs which need funds to expand but often do not have the credit history or collateral sufficient for credit from conventional financing sources.

The SME Finance Project is designed to address these constraints in the financial sector of Ethiopia. The **Project Development Objective** of SMEFP is to increase access to finance for eligible small and medium enterprises in Ethiopia based on eligibility criteria stipulated in this project implementation manual. The proposed Ethiopia SME Finance Project contributes to higher level objectives since the project is fully aligned with the priorities set out in the FY13-16 Country Partnership Strategy (CPS). The CPS explicitly calls for “increasing competitiveness in manufacturing and services, and SME access to financial services” as one of the key outcomes under its Pillar One. The CPS progress report noted results in this area, reconfirming this objective. The proposed operation addresses the provision of finance in local currency through eligible participating financial institutions (PFIs) to expand outreach to urban and rural SMEs, thereby addressing the liquidity gap and facilitating sustainable access to finance to SMEs. In doing so the project is taking a comprehensive approach by addressing broader impediments to access to finance by: i) incentivizing the financial system to deepen the provision of sustainable financial services to SMEs (i.e. through technical assistance to financial intermediaries to deploy novel lending techniques to reach SMEs); ii) by supporting investment in financial infrastructure (i.e. collateral registry, insolvency and creditor/debtor regime); and iii) addressing bankability constraints of the SMEs thorough provision of technical assistance, especially on business development. The proposed approach and project objectives are highly relevant to priorities identified in the CPS.

The progress towards the PDO will be measured by the following PDO level results indicators: (a) Volume of Financial Support to SMEs under the credit facility; (b) Number of SMEs reached with financial services under the credit facility; and (c) Portfolio Quality under the credit facility.

The World Bank has extensive experience with previous and current lending projects, analytical work, and technical assistance to support financial sector reform in Ethiopia. These include Financial Sector Capacity Building Project (P094704); Improving the Efficiency of Payments System Project (P149104); Cheque Standardization Project (P132042); and Women Entrepreneurship Development Project, P122764 (ongoing).

1.3 Project Components

The SME Finance project has four components: (i) Component 1: Financial services to SMEs; (ii) Component 2: Enabling environment for SME Finance; (iii) Component 3: Business Development Services to SMEs; (iv) Component 4: Project management,

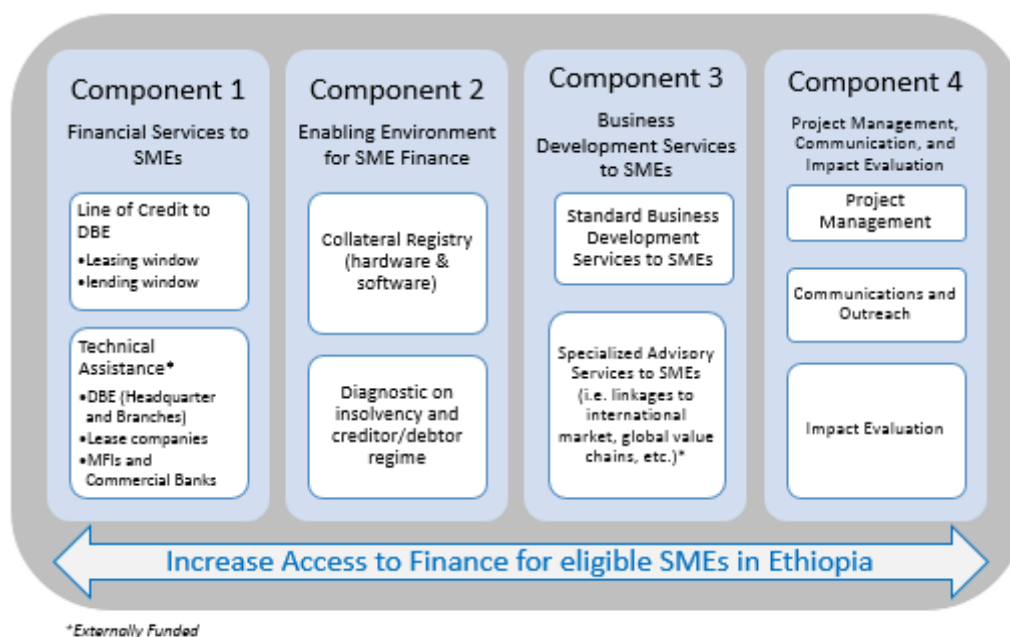
communication and impact evaluation with total fund of USD 276 million (IDA financing of USD 200 million and EIB financing of USD 76 million). Table 1 below shows the fund allocation to the components of the project.

Table 1.1: Project Cost and Funding

Project Components	Project Costs (US\$ million)	IDA Financing (US\$ million)	EIB (US\$ million)	% IDA Financing
Component 1: Financial Services to SMEs	269	193	76	71.7
Component 2: Enabling environment for SME Finance	0.8	0.8		100
Component 3: Business Development Services to SMEs	2.5	2.5		100
Component 4: Project Management, Communication and Impact Evaluation	3.7	3.7		100
Total Financing	276	200	76	72.5

Figure 1.1 provides a graphic representation of how the four components would be combined to increase access to finance for SMEs in Ethiopia.

Figure 1.1: Overview of Project’s Components



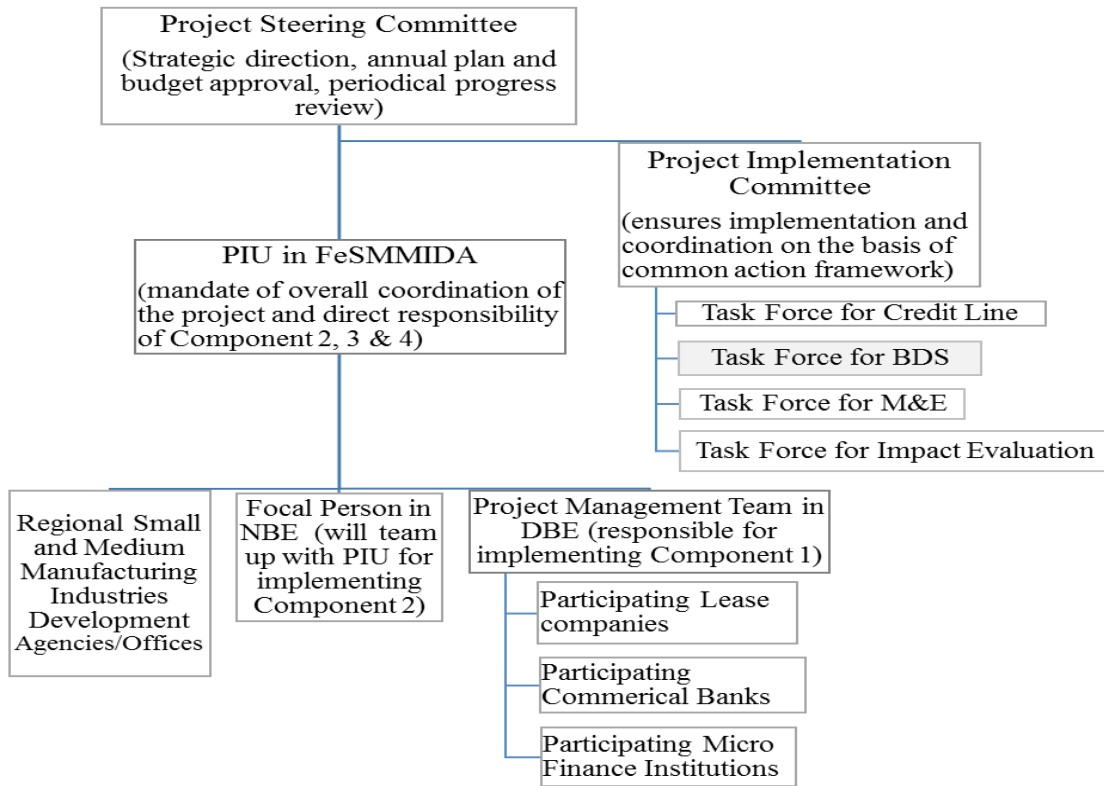
Project Components are described in detail in Annex 1.1.

II. IMPLEMENTATION ARRANGEMENT

The Ministry of Finance and Economic Cooperation (MoFEC) represents the Government of Ethiopia (GoE) and will be the signatory of the IDA Credit and Ministry of Industry (MOI) is mandated by MoFEC to be the responsible Ministry to host the SMEFP and have the coordinating role with the implementing agencies. MoFEC delegated the project implementation to the Development Bank of Ethiopia (DBE) and Federal Small and Medium Industries Development Agency (FeSMMIDA). The IDA Credit proceeds will be transferred directly to DBE in line with the provisions of the Subsidiary Agreement, and to FeSMMIDA. The MoFEC will also be the signatory of the EIB’s Line of Credit. DBE will be the exclusive project implementation agency for EIB Credit proceeds.

A Project Management Team (PMT) will be established in DBE with the direct responsibility of managing the credit facility under component 1. A Project Implementation Unit (PIU) will be established in the FeSMMIDA with the mandate of overall project coordination and direct responsibility of component 2, 3 and 4. National Bank of Ethiopia (NBE) will assign a focal person that will act as the key technical referent of the PIU for Component 2. At the regional level, Small and Medium Manufacturing Industries Development Offices will serve for marketing the project and coordinating SMEFP’s services to clients.

Figure 2.1: Implementation and Organizational Structure of SMEFP



2.1 Project Steering Committee

The Project Steering Committee (PSC) is the policy organ to oversee and guide the project under overall implementation responsibility of the implementing agencies. Another important responsibility of PSC is to coordinate and build consensus on key policy issues so as to ensure an enabling environment for the major actors of SMEFP to achieve its development objectives throughout the course of project life.

a) Composition

The Project Steering Committee is comprised of representatives of the following key stakeholders:

1. Minister /State Minister of Industry, Chairperson
2. Vice Governor of National Bank of Ethiopia (financial institutions supervision), Co-chairperson
3. President of Development Bank of Ethiopia, member
4. Executive Director of Association of Ethiopian Microfinance Institutions, member
5. Small and Medium Manufacturing Industry Development Agency Director, Secretary

b) Responsibilities

The PSC within its power shall:

- Provide strategic guidance for overall implementation of the project;
- Review and approve annual plans for SMEFP work plan, budget, and procurement plan; and ensure that SMEFP priorities are observed during budget programming;
- Review and approve the monitoring documents and reports;
- Coordinate and build consensus on key policy issues related to SMEFP implementation;
- Responsible for oversight of the project;

c) Decision making

- All the PSC's decisions are taken by the majority of votes;
- The PSC's decisions shall not contradict the Agreement conditions between IDA and the government.

d) Schedule of Meetings

The PSC's meetings are called at a minimum twice a year (preferably in January and July), as well as at the request of the PSC members or extra ordinary meeting as needed.

2.2 Project Implementation Agencies

The implementing agencies, Federal Small and Medium Industries Development Agency and Development Bank of Ethiopia, will define the tasks within each component under their responsibility. The defined tasks or TORs will be reviewed for quality by the responsible PIU or technical staff, which will proceed with competitive contracting and selection procedures, using a panel of appointed experts and/or appropriate tender/selection committees.

2.2.1 Federal Small and Medium Manufacturing Industries Development Agency

The Federal Small and Medium Manufacturing Industries Development Agency (FeSMMIDA) is the implementer of project component 2, 3 and 4. The PIU will be housed in FeSMMIDA. At the regional level, Small and Medium Manufacturing Industries Development Agencies will be responsible for marketing the project and facilitating SMEFP services to clients referring the SMEs to services under both Component 1 and Component 3 of the project. Regional Small and Medium Manufacturing Industries Development Agencies will assign focal staff to the project.

(a) PIU Roles and Responsibilities

The PIU will be responsible for:

- Overall coordination of the SMEFP in accordance with the provisions and procedures articulated in the PIM as well as the SMEFP agreements;
- Ensure effective and efficient use of financial resources allocated by IDA and other financing partners;
- Implementation of Component 2: “Enabling environment for SME finance”. The PIU’s responsibilities will include procurement of hardware, software, business development services, capacity building related equipment and other consultancies as needed, as well as overall coordination between the component activities. NBE will assign a focal person that will act as the key technical referent of the PIU for Component 2.
- Implementation of Component 3: “Business Development Services to SMEs”; The PIU’s responsibilities will include recruiting consultant and coordinating a needs assessment of SMEs; recruiting BDS providers to deliver services; and overseeing the efficient delivery of services to SMEs.
- Implementation of Component 4: “Project management, communication and impact evaluation”; The PIU’s responsibilities will include direct responsibility for project management and communication, including monitoring & evaluation. An externally-funded impact evaluation component focused on innovation and rigorous measurement of results will be

implemented by the World Bank and the Ethiopian Development Research Institute.

- Coordination with the PMT at the DBE responsible for implementation of Component 1: “Financial Services to SMEs”;
- Preparation of the annual budgets, project implementation plans and procurement plans under Components 2, 3 and 4; and presentation of the plan and budget to the PSC, MoFEC, and World Bank for adoption and confirmation of having no-objections;
- If needed, make timely changes in the annual budgets, project implementation plans and procurement plans under Components 2, 3 and 4 and present updated documents to the PSC, MoFEC, and World Bank for adoption and confirmation of having no-objections;
- Timely financing of the components and payment for services of the international and local consultants under Components 2, 3 and 4;
- Procurement of goods and services under Components 2, 3 and 4 in accordance with World Bank Guidelines. Coordination of preparing the TORs, arrangement of tenders and coordination of bids evaluation along with the appropriate executive agencies; contract signing;
- Monitoring of the SMEFP progress according to the Project Implementation Plan and monitoring and evaluation plan. Data collection needed for monitoring of the tracked indicators and update of the monitoring and evaluation plan. Provide analysis for compliance of the results with the work plans and problem identification; preparation of recommendations and decisions for the SMEFP’s efficient implementation;
- Preparation and presentation of monthly updates to Project Implementation Committee; quarterly and annual consolidated reports on the SMEFP funds use and the SMEFP implementation progress to the MoFEC, PSC and World Bank specifying the outcomes achieved; challenges and proposed actions. The SMEFP progress reports should also provide updated information on the outcome indicators, expenses and procurement within the framework of the SMEFP;
- Close interaction with the PSC, authorities and officials of the agencies and institutions participating in the implementation of the SMEFP;
- Assist the World Bank review missions and provide mid-term analysis of the SMEFP;
- Initiation of other actions needed for efficient and timely implementation of the SMEFP.

(b) PIU Staffing

The PIU in FeSMMIDA will have the following staff to coordinate the implementation and day to day operations of the project under Component 2, 3 and 4:

- 1) PIU Coordinator
- 2) Procurement Specialist
- 3) Financial Management Specialist
- 4) Monitoring and Evaluation Specialist
- 5) Non-Financial Services Coordinator

The terms of reference of PIU staff is attached as Annex 2.1.

(c) The Regional Small and Medium Manufacturing Industries Development Agency

The Regional Small and Medium Manufacturing Industries Development Agency will market SMEFP and facilitate the project services that will be provided to SMEs under component 1 and component 3. The Regional SME Development Agency will assign focal person for the SMEFP and will maintain a welcoming and efficient work atmosphere where the SMEs will be provided with the appropriate guidance throughout the support process. The Regional Small and Medium Manufacturing Industries Development Agency will provide the following basic services:

- Providing guidance to SME owners about the process required to benefit from the project;
- Co-organize training workshop and other events for project promotion and facilitate provision of SMEFP services under component 1 and component 3;
- Act as a knowledge and information center, supply information about available support including the SMEFP services particularly credit line facility and business development services;
- providing basic support to SMEs in developing their business ideas and entrepreneurial mindset that addresses the challenges to growth that the business is facing;
- Arranging, in coordination with Non-financial Services Coordinator, the business development services appropriate to SMEs and directing the SMEs to business services provider(s);
- Directing the SMEs to DBE branches, participating commercial banks, micro finance institutions and leasing companies for credit line facility;
- Organizing and managing project database capturing good practices and lessons; establishing and maintain project specific database/folder for SMEFP and its members and file documents as appropriate according to the filing method in use;
- Collecting data and submitting monthly, quarterly and annual reports to PIU and Federal Small and Medium Manufacturing Enterprises Development

Agency (FeSMMIDA) on the project performance;

- Collecting a feedback from clients; analyzing and communicating results/findings accordingly.

The Regional Small and Medium Manufacturing Industries Development Agency shall prepare annual work plan integrating SMEFP activity plan, evaluation and reporting mechanism in its regular activities;

2.2.2 Development Bank of Ethiopia

1. The Development Bank of Ethiopia is a specialized financial institution established to promote the national development agenda through development finance. The Ministry of Finance and Economic Cooperation represents the Government of Ethiopia as sole shareholder in DBE. MoFEC liaises with DBE in relation to the Bank's capital position and is represented in the Board of Management. The Public Financial Enterprises Agency (PFEA) has supervisory responsibility for DBE.
2. DBE currently operates on the basis of a project finance business model, in which it supports projects with loans and technical assistance in selected high-priority sectors. The Bank has a head office which is responsible for large loans above ETB 25 million / US\$1.2 million, and regional offices which book smaller loan amounts and widen the Bank's reach. The DBE President is responsible to the Board of Management and is supported by Vice Presidents responsible for Corporate Services, Branch Operations, Leasing, Credit Services and Support Services. The value of DBE's total current portfolio of loans and advances is ETB 26 billion / US\$1.2 billion (June 2015).
3. As a development finance institution, DBE is well placed to serve the financing requirements of SMEs. SME lending represents an important strategic development for DBE, providing an opportunity to further enhance its development role as well as contributing to the country's ongoing financial sector development. Following submission of the *DBE Branch Rationalization Study* in late 2013, DBE's Board of Management and executive management considered changing the business model of its branch operations to one based on an SME lending approach, through a significant expansion of the number of regional branches. DBE has prepared a *Five Year Credit Plan, 2015-2020*, which assumes up to 20 percent of total disbursements over the next five years for SME lending and lease financing purposes. The development of an SME lending capability is viewed as complementary to DBE's existing project finance and wholesaling activities.
4. The World Bank Group and DBE have a successful track record of partnership. DBE was selected by the World Bank as the wholesaling institution for the Women's Entrepreneurship Development Project (WEDP), based on its track record of

managing lines of credit and on its management commitment to the project. DBE is responsible for the management of a fund of US\$42.4 million provided for onward lending through twelve selected MFIs to micro- and small-sized women-owned enterprises. DBE has played the role of a wholesaler very effectively in the WEDP project and has rapidly disbursed the WEDP funds to MFIs. With oversight from DBE, the MFIs have disbursed the funds effectively to final beneficiaries, and have also developed their capacity in lending to women-owned MSMEs and adopted improvements and innovations in credit scoring and appraisal.

5. The World Bank has supported the institutional development of DBE. In 2012 as part of WEDP, the World Bank conducted an assessment of DBE's compliance with World Bank requirements for financial intermediary financing projects. The assessment confirmed DBE's eligibility, provided that it strengthened its capacity in several key areas, including risk management, human capital, loan process, and IT/MIS. Between April 2013 and June 2014, WEDP funded technical assistance to work with DBE senior management in the design and implementation of an institutional development plan.
6. Component 1: Financial Services to SMEs will be implemented by Development Bank of Ethiopia. DBE will provide both direct financing to SMEs and wholesale finance to other financial intermediaries for on-lending to SMEs. DBE will serve as:
(i) direct lender of lease finance to SMEs through its regional branch network for amounts greater than ETB 1 million;(ii) wholesaler of finance to participating lease companies for provision of lease finance to SMEs for amounts less than ETB 1 million; and iii) wholesaler for commercial banks and MFIs focused on provision of working capital finance to SMEs. Tailored and compulsory technical assistance will be provided to DBE branches and to the participating lease companies. A Project Management Team (PMT), which is housed in DBE, will maintain direct responsibility for managing the credit facility under component 1. Building on lessons from WEDP, to reduce risk, and to ensure complementarity, the DBE will make use of existing structures and expertise to manage this project. DBE in fact already has a track record of managing credit lines and the existing PMT of WEDP has developed adequate capacity to successfully manage WEDP to date. DBE intends to supplement the WEDP PMT with additional capacity as needed to manage the new project. Specifically, a Safeguards Specialist and a Leasing Specialist will be added to the team.

2.3 Project Implementation Committee (PIC)

As the project involves close partnerships between a number of stakeholders, including the DBE, FeSMMIDA, NBE, WB, EIB and other development partners supporting the required technical assistance, Project Implementation Committee will be established to avoid a risk that

lack of effective coordination could constrain implementation and reduce the likelihood of achieving the desired objectives.

a) Responsibilities and Composition of PIC

Responsibilities of Project Implementation Committee

The overall responsibility of the Project Implementation Committee will be ensuring that planning, implementation, and monitoring are adequately coordinated across key stakeholders. The major functions of PIC include:

- Provide project direction including in areas of project deliverables, outcome indicators, steps and timeline for completion of activities to the project implementation unit of FeSMMIDA and project management team of DBE;
- Establish thematic task forces focusing on line of credit, business development service, M&E and impact evaluation;
- With support of thematic task forces, provide oversight through regular updates based on a monthly action matrix which indicates the milestones completed over the previous months and those to be achieved over the coming month;
- Oversee the management of funds and ensure the appropriate usage of it by project beneficiaries;
- Ensure project progress report and audit report is submitted to the World Bank.

Composition of Project Implementation Committee

The PIC is composed of PIU (FeSMMIDA), PMT(DBE), the World Bank (secretariat of the Committee), European Investment Bank, DFID/ Enterprise Partners (EP) and other co-financers to be represented by one participant from each co-financers.

Meeting Schedule of PIC

The Project Implementation Committee will conduct its meetings on monthly basis.

b) Thematic Task Forces

Thematic Task Forces focusing on credit line, business development service, M&E and impact evaluation will review the progress status of SMEFP and report to PIC.

2.4 Technical Committee

The Technical Committee is an advisory group that provides input for relevant strategic and implementation decisions during project implementation. With a view of getting a clear overview of the needs and priorities for SME finance project, the purpose of the Technical Committee is to:

- bring knowledge and expertise of financial sector and business development services to the project implementers;

- Update and share all relevant information and expertise on developments in SME finance lending products and enabling policy environment for the project implementation; and
- Assist and advise the Project Steering Committee in defining priorities in line to new developments in the financial sector and commercial practices and regulatory issues in the business environment of the target project beneficiaries.

Composition of Technical Committee

The Technical Committee is composed of Director General of FeSMMIDA (Chairperson), Director of Micro Finance Institutions Supervision Directorate of NBE (Member), Director of Banks Supervision Directorate of NBE (member), , Director of Capital Finance Lease Directorate of Small and Medium Manufacturing Enterprises Development Agency (member), PMT Coordinator/DBE (member) and PIU Coordinator/FeSMMIDA (Secretary).

Reporting

The Technical Committee will report to the Project Steering Committee. The Technical Committee also shares the updates to PIC.

Meeting Schedule of Technical Committee

The Technical Committee will conduct its meetings on quarterly basis.

III. OPERATIONS MANUAL FOR SMEFP LINE OF CREDIT

3.1 Introduction

This Operations Manual (OM) presents guidelines and procedures for the implementation of Component 1 of the SME Finance Project in the Federal Democratic Republic of Ethiopia. The purpose of the OM is to define responsibilities, eligibility and procedures related to the implementation of the credit facility of the SMEFP, in line with the project design outlined in the Project Appraisal Document and subject to all applicable World Bank policies. The SMEFP is financed with a USD 200mn credit from the International Development Association's and includes a USD 193mn line of credit targeting small and medium enterprises, complemented by EUR 70mn from the European Investment Bank and managed under the SMEFP. Funding under EIB's Line of Credit (LoC) is subject to additional conditions and reporting requirements, which are spelled out in Annex 3.1.

This OM will focus on Component 1. The objective of the first component is to provide participating financial intermediaries with a line of credit facility for the provision of leasing and working capital to eligible small and medium enterprises. This liquidity support will be complemented with mandatory technical assistance aimed at supporting DBE and other participating financial institutions in designing, piloting, and rolling out financial products utilizing novel lending methodologies (i.e. cash flow-based lending) to successfully expand their outreach to the target SMEs. The technical assistance support will be provided externally by development partners.

3.2 Project Beneficiaries and Definitions

Project Beneficiaries

The final project beneficiaries will be eligible small and medium enterprises operating in the manufacturing and agro-processing industries, construction and tourism in line with the priority areas indicated in the Lease Financing Policy for SMEs (Code-DBE/03/2007)¹. For SMEs receiving working capital only, the activity sector is restricted to manufacturing and agro-processing. Those in construction and tourism that receive leasing finance from DBE or Leasing Companies may receive working capital finance under this project from a participating Commercial Bank or a micro-finance institution.

¹ Article 2.1.1 of the Lease Financing Policy for SMEs indicates that priority areas for SMEs are (i) Agricultural project; (ii) Agro-processing industries; (iii) Manufacturing Industries; (iv) Tour Industries; (v) Construction industries; (vi) Mining and Quarries. Agricultural project as well as Mining and Quarries however are excluded from the project beneficiaries' sectors due to comparatively higher perceived risks on the environment and communities.

Definition of “SMEs”

The definition of SMEs adopted by the project will be aligned to the one contained in the Lease Financing Policy for SMEs (Code-DBE/03/2007) in terms of minimum number of employees (i.e. above 6). The project will also fix the maximum number of employees per SME at 100. Moreover, under Component 1, working capital loans to SMEs will be limited to a maximum of Birr 10 million, while lease finance loans will be aligned with the Lease Financing Policy requirements: i.e. a maximum lease loan size of Birr 30 million. The policy also indicates that DBE will be focusing on direct provision of lease finance for SMEs in need of loans from Birr 1-30 million per SME, while lease companies will serve SMEs with lease finance needs up to Birr 1 million.

Table 3.1: Definition of eligible SMEs

Employees	From 7 to 100
Sectors (for working capital only)	Manufacturing and Agro-processing
Sectors (for leasing and working capital or leasing only)	Manufacturing, agro-processing, tourism and construction

Table 3.2: Financing for SMEs

	Leasing	Working Capital
DBE	=> 1 million Birr (up to 30 mill Birr)	No
Leasing Companies	=< 1 million Birr	No
CB and MFI	No	Yes (up to 10 mill Birr)

Definitions:

- Microfinance Institution – MFI: Microfinance institutions registered and operating in accordance with the applicable laws and regulations of Ethiopia.
- Commercial Banks – CB: Commercial Banks registered and operating in accordance with the applicable laws and regulations of Ethiopia.
- Leasing Companies – LC: Leasing companies registered and operating in accordance with the applicable laws and regulations of Ethiopia.
- DBE: Development Bank of Ethiopia.
- “Participating Financial Institution” or “PFI” means a commercial bank, a microfinance institution, or a financial leasing company operating in accordance with the applicable laws and regulations of Ethiopia and selected to participate in the project in conformity with the eligibility criteria contained in this Operations Manual.
- “Credit Facility Agreement - CFA” means an agreement to be entered into between DBE and a PFI, on the terms and conditions agreed with the World Bank and the EIB.
- “Eligible Small and Medium Enterprise” or “Eligible SME” means a small and medium enterprise established and operating within Ethiopia which meets the eligibility criteria contained in this Operations Manual.
- “Sub-Loan” means a financing in the form of a leasing finance or working capital, to be provided by DBE, or a PFI, as the case may be, to an Eligible SME out of the proceeds of the Credit for a Sub-project under Component 1 of the Project.

- “Sub-Loan Agreement” means an agreement between DBE and an Eligible SME or an agreement between a PFI and an Eligible SME.
- “Sub-project” means a leasing finance, working capital, or investment finance project to be undertaken by an Eligible SME which has been selected and approved in conformity with the provisions of the Operations Manual.

3.3 Component 1: Financial Services to SMEs

A. Overview

The objective of the first component is to establish a credit facility providing access to finance for (a) working capital and leasing finance for participating financial institutions which in turn lend to eligible SMEs and (b) leasing finance for eligible SMEs. This liquidity support will be complemented with mandatory technical assistance aimed at supporting PFIs in designing, piloting and rolling out financial products utilizing novel lending methodologies (e.g. cash flow-based lending) to successfully expand their outreach to the target SMEs. The technical assistance support will be funded externally through bilateral agreements with development partners.

The Development Bank of Ethiopia will provide both direct financing to SMEs and wholesale finance to other financial intermediaries for on-lending to SMEs. More specifically, the DBE will in parallel serve as: (a) direct lender of lease finance to SMEs through its district-level branch network; (b) wholesaler of finance to participating lease companies for provision of lease finance to SMEs; and (c) wholesaler for commercial banks and MFIs focused on provision of working capital finance to SMEs. It will do so through two main financing windows:

- **Window 1: Lease finance to SMEs.** This window will provide a line of credit to strengthen DBE’s capacity to provide lease finance to SMEs both directly through its regional branches and indirectly through the licensed and eligible lease companies operating in the country. DBE, as a retailer through its regional branches, will provide lease financing directly for amounts greater than ETB 1 million and indirectly to eligible lease companies for amounts of ETB 1 million or less. Tailored and compulsory technical assistance will be provided to DBE branches and to the participating lease companies (see TA facility below) on how to properly address SMEs’ needs in the regions where they operate, as well as enhancing their skills on risk management, product design, management information systems (MIS), funding strategy, and other needs as appropriate.
- **Window 2: SME lending.** This window will provide a wholesale line of credit from DBE to eligible commercial banks and MFIs for on-lending of working capital finance to SMEs. Similar to the leasing window, a tailored and compulsory technical assistance (see TA facility below) will be provided to commercial banks and MFIs

on how to reengineer their business models so that they can lend to SMEs in a sustainable fashion. This approach has been very successful in several other countries (e.g. Turkey and China), and it has completely changed the attitude of the financial sector players towards SMEs.²

A TA facility (funded externally through development partners) will be established to complement and reinforce project implementation. A critical success factor and a key goal of the project are to build the institutional and human resource capacity of DBE and of the other PFIs to effectively serve the SME market. The TA Facility will be closely coordinated with the Credit Facility. The DFID-funded PEPE project will be responsible for funding and managing the TA facility, under the technical supervision of the World Bank team.

In order to make the credit facility effective, PFIs will receive a mandatory, specific, high-quality, technical assistance. This will be delivered through a combination of specialized trainings and the presence of technical advisors with proven relevant local and international experience to help build capacity in financial services to SMEs. This capacity building will enable PFI officials and staff to serve SMEs adequately - training them in assessing SME business proposals and developing suitable financial products and lending methodologies for the target group.

In order to have access to the Credit Facility, PFIs will be required to enter into technical cooperation agreements (TCA) with the Project Management Team (PMT) in DBE and with PEPE. Under such agreements, PFIs will receive TA free of charge for a period deemed appropriate after the initial gap assessment for building the necessary capacity to undertake the project's assignment.

The available funding will be used on a “first-come-first-served” basis to ensure efficiency and encourage competition amongst PFIs. Small advances (up to 10% of the approved amount) will be considered for building initial portfolios during technical assistance stage to support piloting of new lending techniques. Subsequently, the funds will be made available on reimbursement basis to ensure that PFIs are in compliance with eligibility criteria. In case a PFI is not able to utilize the initially drawn resources over a specific period of time, these funds will be recalled and returned to DBE for reallocation. The repayments will be collected in a revolving fund and will be used to provide funding for new sub-loans under the same conditions.

² In these countries, mandatory changes to banks' business models included: the creation of an SME department within each participating bank, the creation of decentralized credit committees, and the introduction of a purpose-designed quality assurance process. The TA was provided free of charge to the participating institutions for two years.

The NBE expects that leasing will be taking up to 80 percent of the financing under Component 1 and the rest will be absorbed by the working capital window. However, the line of credit implementation will be demand driven so as to respond to the SMEs' financing needs. The project will ensure that sufficient resources are provided to both, leasing and working capital windows.

B. Pricing

The pricing proposal under the project is to strive to make DBE funding available to eligible financial intermediaries and SMEs on terms that ensure sustainability. The wholesale pricing for PFIs is yet to be determined by DBE and will be informed by the recommendations of the technical assistance. The minimum pricing for DBE retail leasing has been determined as the DBE bond price (currently at 6 percent) plus a 3 percent interest margin.

The pricing approach will be finalized during the technical assistance stage to best ensure that new products which utilize novel lending techniques are rolled out in a sustainable fashion. The wholesale and direct lending terms offered by DBE, therefore, need to reflect its cost of borrowing, a spread to cover the costs of operation, macroeconomic and lending risk-premium, and local lending market conditions so as to avoid market distortions. Charging a margin that adequately reflects DBE's cost and risk will allow it to build a capital base which could then be reinvested in new loans to eligible SMEs.

Other PFIs funded by DBE will assume full credit risk on their SME portfolio under the project and will be free to price the sub-loans reflecting their cost and risk, thus ensuring sustainability of their SME loan portfolio. Also, the DBE will not be competing with its wholesale clients in reaching the final borrowers, as the wholesale and direct lending facilities will target different market segments in leasing, while DBE will not be involved in direct provision of working capital. The impact of the project on affordability of finance would be based on extending loan tenors that will ultimately have a large positive impact on eligible SMEs' cash flow. Longer loan tenors could substantially reduce monthly payments resulting in debt service relief and expanding SME borrowing capacity and allowing them to further develop and grow their businesses. Overall, the pricing strategy should serve the purpose to attract the eligible PFIs to participate in the scheme at a sufficient margin, while enable more affordable finance to the SMEs.

C. Eligibility Criteria for PFIs

- i) **Only those financial intermediaries (i.e. microfinance institutions, lease companies and commercial banks) that meet the stipulated eligibility requirements will be able to obtain the status of Participating Financial Institution and their eligibility will be verified annually by DBE.** The World Bank team has appraised the DBE, as summarized previously, confirming its eligibility subject to implementation of an

institutional development plan. Furthermore, in addition to support with implementation of institutional development plan (funded externally), the DBE will also receive technical assistance to strengthen its capacity to appraise PFIs, as this is one of the core areas of its wholesale function.

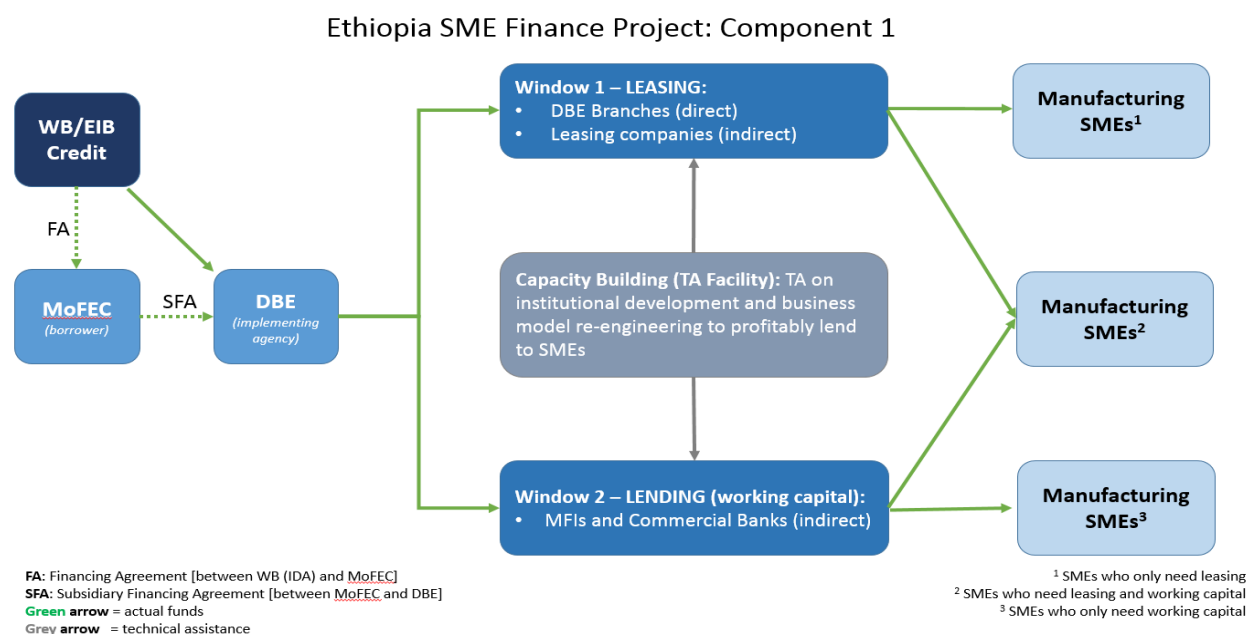
- ii) **The appraisal of each PFI will be summarized in an appraisal report reflecting institutional practices for financial intermediary financing projects requiring an assurance that all PFIs in a World Bank financed Line of Credit (LOC) are viable financial institutions** determined by criteria described in Annex 3.1. DBE will submit to the WB and EIB the appraisal reports of each selected PFI, for non-objection.

- iii) **All PFIs will be required to reflect the minimum standards of financial consumer protection in their on-lending activities under the project.** These minimum standards will be finalized during the technical assistance phase and will be reflected in the credit agreements with PFIs. The types of standards for fair treatment of borrowers that will be considered include full disclosure of borrowing costs and transaction fees using a standard methodology, ban on undisclosed, unilateral changes to interest rates and fees undertaken without due warning charging interest on reducing balances basis, and other as appropriate.

- iv) **All PFIs will be required to comply with applicable environmental and social requirements.** In particular, PFIs will have in place an Environmental and Social Management System (ESMS), acceptable to the Bank, to enable them to identify, assess, and manage environmental and social risks and impacts associated with sub-borrowers and sub-projects. The PFI's ESMS will reflect the applicable requirements stipulated in section 3.6. Where the PFI's ESMS must be strengthened in order to be acceptable to the Bank, the PFI will put in place a time-bound action plan as a condition of its eligibility.

Figure 3.2 below provides an overview of the funds flow over Component 1:

Figure 3.2: Overview of the Flow of Funds³ for Component 1



D. Eligibility Criteria for Sub-borrowers and Sub-Projects

Table 3.3: Eligibility Criteria for Sub-borrowers and Sub-Projects

Eligible Sectors	Manufacturing, Agro-processing, Tourism and Construction
Type of sub-loans	Leasing, Working Capital
Sub project viability	Sub-project should be acceptable in terms of technical, economical, financial and commercial soundness.
Environmental and social risk management	Sub projects should meet all environmental and social requirements stated in the Financing Agreement and the Project Operations Manual.
Procurement of Goods, Works and Services	Purchase of goods, works and services to be financed by a Sub-Loan should comply with World Bank procurement guidelines and procedures stated in the Financing Agreement and the Project Operations Manual
AML/CFT Compliance	PFI to be regulated/ supervised financial institution having an AML/CFT compliance program in line with the recommendations developed by FATF, as amended and supplemented from time to time.

- i) **Sub-borrowers will be creditworthy private sector SMEs in the eligible sectors.** For working capital finance, eligible sectors include manufacturing and agro-processing. For those SMEs receiving leasing finance, also tourism and construction industries will be allowed in line with the priority areas for SMEs indicated in the Lease Financing Policy for SMEs (Code-DBE/03/2007). Tourism and construction industries will not be applicable to SMEs receiving working capital only.

³ While the Financing Agreement is signed with MoFEC, the actual funds will flow directly from WB to DBE.

- ii) **Sub-loans will be extended to eligible SMEs for working capital loans and lease finance.** The sub-loans will be denominated in Ethiopian ETB. The sub-loan amounts to be disbursed by Commercial Banks and MFIs will be up to 10 million ETB and will be restricted to working capital only. Sub loans to be disbursed by DBE will be between Birr 1 mill – 30 million and by Leasing Companies, up to Birr 1 million.
- iii) **All sub-projects will be in compliance with applicable environmental and social requirements of the World Bank.** In particular, these requirements include compliance with the relevant laws and regulations of the Federal Democratic Republic of Ethiopia, List of Excluded Activities⁴ (see Annex 3.2), and, for higher risk sub-credits, relevant requirements of the World Bank Performance Standards 1 through 8.
- iv) **To ensure smooth commencement of the line of credit operations, the World Bank team, in coordination with the TA providers, will undertake prior review of the first two sub-loans for each PFI.** During project implementation, the World Bank (together with DBE in the case of wholesale business line) will prior review a few sub-loans for each PFI to ensure that they adequately comply with the eligibility criteria. The prior review will include a review of documents on the basis of which the loans were approved, and it will not include any type of credit appraisal of the sub-borrower by the World Bank. The prior review will help address any initial gaps that PFIs may have in applying the eligibility criteria and will help manage risks.

3.4 Conditions on Financial Intermediation

A. Subsidiary Financing Agreement (SFA) between MoFEC and DBE

To facilitate the establishment of the credit facility, the MoFEC will make the corresponding proceeds of the credits available to DBE under a subsidiary financing agreement (SFA) which will be subject respectively to prior review and no objection of the World Bank and the EIB. Amongst other, provisions of these agreements include:

- Suspend or terminate the right of DBE to use the proceeds of the Credit, or obtain a refund of all or any part of the amount of the Credit then withdrawn, upon DBE's failure to perform any of its obligations under the Subsidiary Financing Agreement;
- DBE to: (i) carry out its Respective Part of the Project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the International Development Association, the WB' Anti-Corruption Guidelines and the FATF

⁴These activities are prohibited for World Bank Group and EIB support. DBE may choose to prohibit financing of such activities in its other lending operations, as specified in the DBE's ESMS.

recommendations as amended and supplemented from time to time⁵ applicable to recipients of loan proceeds other than MoFEC; (ii) provide, promptly as needed, the resources required for the purpose; and (iii) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of its Respective Part of the Project and the achievement of its objectives; ;

- DBE will enter into credit agreements with each PFI (Participating Commercial Banks; Participating Leasing Companies; Participating Micro Finance Institutions) in order to allow them to carry out on-lending activities to final beneficiaries of the program.

B. Conditions applicable for DBE as an Implementing Agency

- i) DBE will on-lend the funds to participating entities (selected according to eligibility criteria set out in this OM) using a Credit Facility Agreements (CFA) that will define the credit conditions and will be subject to World Bank and EIB non-objection.
- ii) DBE must maintain, for the duration of the project implementation period, a Project Management Team (PMT) staffed with qualified personnel and capable of satisfactorily implementing all aspects of the project (see below).
- iii) DBE will be responsible for ensuring that all PFIs comply with (i) well-established Private Sector Procurement Methods or Commercial Practices for the procurement of goods, works, non-consulting services and consultant services under sub-loans and (ii) applicable environmental and social requirements as detailed in section VI.
- iv) For the duration of the project implementation period, DBE must annually submit an audit report, that: (i) is prepared in accordance with International Auditing Standards and International Financial Reporting Standards (IFRS); and (ii) has an unqualified audit opinion, except as the World Bank and EIB shall otherwise agree.
- v) DBE will be subject to implement and monitor progress using the agreed project's performance indicators.
- vi) DBE will carefully monitor regularly the performance of all PFIs to ensure that they comply at all times with the eligibility criteria for the project, and will be required to conduct annual assessment of PFIs' eligibility, as outlined in the OM.
- vii) DBE in its role of lead implementing agency will during the implementation of component 1 of the project:

⁵ (http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf)

- Maintain a financial management system in accordance with World Bank requirements.
- Prepare an annual work plan and budget for the credit line component.
- Maintain a separate designated account at the National Bank of Ethiopia (NBE) for the WB and the EIB's Credits, prepare withdrawal applications, maintain the local project account, and maintain summary records of the flow of resources.
- Make disbursements to the PFIs in a timely manner, against appropriate documents (to evidence use of funds, procurement aspects) and guidelines contained in the present OM.
- Assess and confirm the validity of the forecast submitted by the PFIs and submit to the WB to effect the advance of funds.
- Make arrangements for external audits of the project and records to be submitted to IDA and EIB, within six months from the end of the fiscal year.
- Take necessary follow up actions on the Audit Reports, and submit the government's response to the findings in the annual audit to the WB and EIB and corresponding action plans for follow up actions.
- Maintain accounting books and records and prepare respective monthly, quarterly, and annual financial management reports in line with the system outlined in the FM manual.
- Maintain an ESMS, prepared in accordance with the guidelines contained in the present OM.

C. Role of the Project Management Team –PMT

- 1) The PMT will report regularly to the manager of the Export Credit Guarantee and Special Fund Administration Directorate of DBE, who in turn will report once a year, for information purposes only, to the Federal Small and Medium Manufacturing Industries Development Agency and to the Ministry of Finance and Economic Cooperation (MoFEC). The PMT would also have to oversee the on-lending activities of DBE under the project.
- 2) The PMT will be staffed with qualified personnel capable of satisfactorily implementing all aspects of the component.
- 3) Responsibilities of the PMT will include: (i) administering the selection process of eligible PFIs at the beginning of the project and during specific selection windows to be open in due course in agreement with WB and EIB; (ii) appraising PFIs' loan requests; (iii) on-lending to PFIs; (iv) ensuring effective functioning of the on-lending facility to final borrowers through PFIs; (v) on-going monitoring of the PFIs to ensure compliance with project criteria; (vi) checking adherence to all fiduciary and environmental and

social risk management requirements stated in the OM; (vii) monitoring and evaluation based on key project development indicators (viii) reporting on project implementation progress through regular quarterly reports⁶. The PMT will also keep an oversight role on the following functions that will be handled by the Lease Directorate under the Leasing VP: (i) appraisal and disbursement of direct lending by DBE to lessees; (ii) on-going monitoring of the lessees to ensure compliance with project eligibility criteria.

- DBE district-level offices are authorized to appraise and approve SMEs lease financing from Birr 1 million up to Birr 30 million. The Branch Offices in the region are categorized into Grade A B, and C: (i) Grade A branches are authorized to appraise and approve SMEs lease financing from Birr 1 million to Birr 10 million; (ii) Grade B branches are authorized to appraise and approved lease financing from Birr 1 million up to Birr 5 million; and (iii) All lease financing requests beyond the limits of Grade A and B branches as well as all requests to Grade C branches are transferred to a respective district-level office for appraisal and approval;
- Technical assistance will be provided to DBE to enhance their retail activities enhancing their skills on risk management, product design, management information systems (MIS), funding strategy, and other needs as appropriate, including training selected lease finance specialist at the branch level in order to implement component1. The appraisal and approval of sub-loans will commence only after the technical assistance program is implemented at DBE;
- The sub-projects will be appraised and approved at the branch level, consolidated and submitted to the PMT at DBE for financing. The PMT will verify the packages to ensure that all relevant documents are included and then transfer the required amount of funds for each package to the relevant branches;
- On a quarterly basis, PMT will prepare financial reports for their retail functions and consolidate these reports with the reports for funding sub-project through other PFIs to be submitted to the World Bank and EIB.

The staff of the PMT will comprise:

(1) Program Manager, with functions and duties of coordination, communication and public information related to the proposed project;

(2) Project Appraisal Officer:

- Select PFIs and verify their eligibility on an annual basis.
- Monitor the financial information provided by PFIs and their continued eligibility under the project.

⁶ The PMT needs to receive a compiled report of branches from the Lease Directorate in order to fully perform this task.

- Review and appraise PFI's credit forecasts.
- Review the sub-loans applications to ensure that the sub-loans are in compliance with the terms and conditions of the SMEFP.
- Ensure that the required procurement and environmental and social aspects have been complied with for all sub-credits of the project.
- Check all the due diligence criteria for lending is fulfilled.
- Check all legal documents are presented.

(3) Finance and Accounts Officer:

- Prepare reports on PFIs' utilization of the funds, including repayment.
- Provide the required information for DBE.
- Maintain overall financial management system of SMEFP.
- Prepares repayment, outstanding and arrears reports for decision making
- Prepares and sends disbursement and replenishment reports and alerts PMT for timely fund request.
- Execute disbursements according to the OM.
- Prepares periodic reports as per the IUFRR format of World Bank
- Provide all required financial information regarding SMEFP program.
- Document all invoices and other expenditure of PFIs and sub loans if deemed necessary.
- Properly document all disbursement vouchers.

(4) Monitoring & Evaluation Officer:

- Receive and review the information of the PFI.
- Responsible to handle monthly PFIs report compilation and to prepare required monitoring and evaluations reports of SMEFP to the Bank.
- Undertake monitoring, evaluation and follow-up activity of SMEFP.
- Control all invoices and other expenditure of PFI's and sub loans if deemed necessary.
- Visit and check the performances of PFI's at least twice a year and as required arrange for a site visit to the final beneficiaries, as deemed necessary.
- Make ex-post review on all PFI's Disbursements and check if it is according to the agreement.
- Document all follow-up reports and recommend on future performance improvements.
- Prepare quarterly reports for both direct leasing by DBE and for the leasing carried out by leasing companies.

(5) Environmental and Social Risk Management Specialist:

- Ensure adequate implementation of DBE's Environmental and Social Management System (ESMS), and its periodic update, as necessary.
- Ensure that all PFIs have and adhere to the approved ESMS) for identifying and managing environmental and social risks of sub-projects.
- Collect and review periodic reporting information provided by the PFIs on environment and social aspects of sub-projects, and provide recommendations as relevant.
- Provide general guidance to PFIs' staff to screen sub-projects with respect to the PFI's ESMS requirements
- Handle quarterly PFIs report compilation and to prepare required environmental and social performance reports of SMEFP to DBE and the Bank.

(6) Lease Finance Specialist:

- Review, in association with loan appraisal and approval team, all lease finance applications/sub-projects to be funded directly by DBE and make recommendations for financing.
- Review, in association with DBE legal staff, lease agreements
- Supervise lessees as required to ensure that the funds are used for the intended purposes.
- Review financial reports submitted by the lessees.
- Review all request for financing from Leasing Companies and recommend actions to be taken by DBE with respect to allocating the required financing to Leasing companies.
- Review financial documents submitted by leasing companies for the use of funds and request for additional funding.

Terms of Reference for the PMT: the following are the key functions that the PMT should be able to effectively discharge:

Project Administration

- Coordinate implementation of the credit line component of the project
- Participate in the PIC and TC
- Maintain relationships with the MoFEC, Ministry of Industry, Federal Small and Medium Manufacturing Industries Development Agency, the WB and EIB.
- Maintain relationships with the PFIs
- Sign CFAs with eligible PFIs
- Sign Annexes to CFAs with PFIs, for refinancing of eligible beneficiaries and eligible sub-projects

- Provide reports necessary for project implementation reviews and project impact assessment
- Undertake monitoring and evaluation of PFIs based on clearly identified benchmarks and performance indicators
- Ensure integrity of the procurement process
- Ensure integrity of the environmental screening Ensure compliance with Bank’s Anti-Corruption Guidelines

Approval and Supervision of Subsidiary Finance

- Prepare and disseminate information about the credit line, terms and conditions of credit and eligibility criteria to all interested parties.
- Review and approve PFIs’ request for credit line resources for sub-loans.
- Ensure that PFI sub-credits made to finance PFI credits to eligible SMEs for eligible enterprises in accordance with agreed criteria. That procurement, disbursement, environmental and other requirements are adhered with by all PFIs, final beneficiaries and other implementing agents.
- Visit the PFIs and interview their management on a periodic basis, and monitor that the PFIs are supervising with due diligence their sub-credits to eligible SMEs
- Ensure that funds are used for eligible expenditures. Funding that is not used for eligible expenditures should be suspended and recalled
- Prepare and submit to the WB monthly and quarterly reports on sub-credit disbursements, sub-credit repayments and compliance with the Operational Guidelines and the legal documents pertaining to the Project, as specified in Section VII of this OM. Upon request submit copies to the EIB.
- Prepare, in a format acceptable to the WB and EIB, written reports on progress made in achieving the project objectives (*See Section 3.7 and Annex 3.3 for more details*).
- Execute as needed, an ex-post review of the credit portfolio.

Financial Management and Disbursements

DBE in its role of lead implementing agency will during the implementation of the project:

- Maintain a financial management system in accordance with World Bank requirements.
- Prepare an annual work plan and budget for the credit line component.
- Maintain separate designated accounts at the National bank of Ethiopia, prepare withdrawal applications, maintain the local project account, and maintain summary records of the flow of resources.
- Make disbursements to the PFIs in a timely manner, against appropriate documents (to evidence use of funds, procurement aspects) and guidelines contained in the present OM.
- Assess and confirm the validity of the forecast submitted by the PFIs and submit to the World Bank and the EIB to effect the advance of funds.

- Make arrangements for external audits of the project accounts and records to be submitted to WB and the EIB, within six months from the end of the fiscal year.
- Take necessary follow up actions on the Audit Reports, and submit the government's response to the findings in the annual audit to the WB and the EIB, and corresponding action plans for follow up actions.
- Maintain accounting books and records and prepare respective monthly, quarterly, and annual financial management reports in line with the system outlined in the FM manual.

3.5 Conditions on PFIs

A. Credit Facility Agreement's (CFA s) between DBE and other PFIs⁷

- (a) Once the eligibility has been confirmed, the eligible PFIs will sign a CFA with DBE. The CFA will specify terms of access to IDA finance, mutual responsibilities and terms and conditions of participation of the entity in the project.
- (b) The following terms and conditions will apply to the CFAs between DBE and the PFIs:
- The standard format of the CFA will be subject to non-objection by the Bank and EIB;
 - Once signed, the CFA will allow eligible entities to have access to finance on specified terms for eligible beneficiaries and eligible projects;
 - All PFIs signing the CFA must start and remain in compliance with applicable laws and regulations and with the eligibility criteria for participating entities (including environmental and social risk management requirements);
 - The interest rate stipulated in the CFA shall be based on DBE's cost of borrowing plus an on-lending margin reflecting (a) DBE's administrative costs; and (b) a credit risk margin;
 - CFAs will be denominated in Ethiopian Birr (ETB); and
 - DBE will on-lend funds to participating entities according to the terms and conditions stated in the Subsidiary Financing Agreement (SFA) between MOFEC and DBE. Grace periods on principal repayment will be up to 2 years. Maturity of the credit is maximum 84 months (7 years, including the grace period);
 - Compliance with AML/CFT requirements in line with the principles and standards of the FATF recommendations as amended and supplemented from time to time (http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf):

⁷ Note: Sample Credit Facility Agreement between DBE and other PFIs (Participating Commercial Banks, Participating Microfinance Institutions and Participating Leasing Companies) is in Annex 3.4

- (c) A Loan Approval Team (LAT) appointed by DBE will be responsible for approval of the PFIs credit request, after the required appraisal has been conducted by the PMT. Important duties of the LAT include (among others):
- Review adherence of the participating entities to terms and conditions; and
 - Perform any other activities relevant to achieve project objectives and timely and quality implementation of the line of credit component.
- (d) Annual Work Plans from PFIs are assessed and accepted by DBE once a year. The consolidated annual work plan for DBE for this component will be submitted to WB and EIB and will be finally approved by the Public Financial Enterprise Agency as part of the overall DBE budget. DBE will then make arrangements for disbursing the funds to the selected PFIs on a monthly or quarterly basis against the prior month's loan book or against a loan demand schedule to be prepared by the PFIs in advance. Once the allocated amount is drawn down, the PFI will be required to recycle the credit until the project is closed, and prior to repayment of principal to DBE, as long as it utilizes the funds for supporting eligible beneficiaries, in conformity with the guidelines described in the Operations Manual.
- (e) PFIs may be eligible for advance payments from DBE against a credit demand schedule to be prepared by the PFI in advance. DBE will enter into an agreement with each PFI indicating how much will be advanced to the PFI at the initial stage and how the next trench will be released. To document the advances provided by DBE, each PFI must submit a report to DBE indicating at minimum the name of the borrower, the amount lent, date of disbursement and the type of sub project (actively financed).
- (f) The credit amount will initially be capped for the PFIs based on their financial strength and perceived absorptive capacity. However, credits will be provided on a first come first serve basis, until the PFIs achieves its credit cap.
- (g) DBE will assume full credit risk for on lending funds to the PFIs and PFIs will take the credit risk on the final borrowers.
- (h) PFI will undertake a mandatory technical assistance program to enhance its capacity to implement actions related to the on-lending activities envisaged in the project prior to disbursement of funds.
- (i) PFIs will keep record of sub-credits funded under the project separate and distinct from the rest of their credit portfolios.
- (j) If needed, PFIs will provide DBE with a set of documentation for all sub-credits, in order to enable DBE to maintain all project records and make them available for ex-post review by the World Bank and EIB or by external auditors. The PFI will cooperate, as needed, with the WB and EIB and the MoFEC to inspect any sub-project, its operation and any relevant records and documents. PFIs will keep legal documents of sub-projects (building permit, environmental authorizations etc.) on file, and make them available through DBE to the WB and the EIB upon request. Final Beneficiaries shall allow sub-project site visits

(clause to be included in the Sub-Credit Agreement between the PFI and the Final Beneficiary).

- (k) The PFI will maintain a financial management system and prepare financial statements. The PFI will be audited for the project as part of the project audit of the component. Furthermore, the annual audit of the PFI will be submitted to the DBE on annual basis and made available for WB and EIB as required.
- (l) The PFI will be free to price each sub-loan in line with its business policy. This includes an adequate interest rate charge to cover its funding and administrative cost, and risk and profit margin.
- (m) PFIs sub-loans will be screened in line with the requirements stated in their Environmental and Social Management System (ESMS, see Sections 3.6).
- (n) Remedies and penalties will be applied by DBE in the event that a PFI fails to comply with requirements.
- (o) DBE will have the right to suspend or terminate the right of the PFI to use the proceeds of the credit facility, or obtain a refund of all or any part of the amount withdrawn; upon failure of the PFI to perform any of its obligations under the agreement.

B. Conditions for DBE and PFIs Lending to SMEs

Table 3.4: Conditions for DBE and PFIs Lending to SMEs

Purpose of sub-loan	Leasing and/or working capital purposes
Eligibility	Sub-loan proposal should be sound technically, be economically, financially viable, and meet environmental and social standards
Sub-loan pricing	The cost of sub-loans by PFIs to SMEs will include, at a minimum, the cost of the project funds to PFIs plus an on-lending margin reflecting PFIs' administrative costs plus a credit risk margin.
Sub-loan currency	Ethiopian Birr
Aggregate amount of sub-loans to one SME	Working capital loans: up to 10mn Birr. Leasing: up to 30mn Birr (see Table 3.2)
Sub-loan maturity	Up to 7 years
Procurement of goods and services from the sub-loan	Commercial practices acceptable to the World Bank

- (a) The definition of SMEs adopted by the project will be aligned to the one contained in the Lease Financing Policy for SMEs (Code-DBE/03/2007) in terms of minimum number of employees (i.e. above 6). The project will also fix the maximum number of employees per SME at 100.
- (b) In line with DBE's lease financing policy for SMEs, lease financing by PFIs to SMEs shall only consist of financing equipment.

- (c) Sub-loans will be evaluated in accordance with PFI's normal project and credit evaluation guidelines. DBE will ascertain the eligibility of the sub-loans proposed by PFIs to ensure that they meet the project requirements, but will not be part of the credit decision process.
- (d) All sub-loans not subject to prior review may be subject to ex-post review by DBE and/or by the World Bank and EIB to verify compliance with the project criteria.
- (e) The cost of sub-loans by PFIs to SMEs will include, at a minimum, the cost of the project funds to PFIs plus an on-lending margin reflecting PFIs' administrative costs plus a credit risk margin.
- (f) Sub-loans will be made in Ethiopian Birr.
- (g) PFIs may provide more than one sub-loan to a SME up to the agreed thresholds for working capital and leasing.
- (h) All sub-loans must have a maturity of at least 1 year and not more than 7 years including grace period. SMEs will be able to repay their loans to PFIs after the project closing date, if required.
- (i) The first two sub-loans from each PFI, irrespective of size will be subject to prior review by the World Bank in coordination with the TA provider.
- (j) Final Beneficiaries will be required to provide reasonable information for the purpose of monitoring and impact assessment during the life of the project (and for certain period after the project), as may be requested by the World Bank, EIB, the TA provider and/or DBE.
- (k) Final Beneficiaries are required to comply with the World Bank's "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006, and revised January 2011 (Anti-Corruption Guidelines) as part of its general obligations relating to the receipt and use of such proceeds of the Loan. The local translation of the Anti-Corruption Guidelines is available on the World Bank website in Ethiopia (<http://www.worldbank.org/en/country/ethiopia>). The English language version will apply in case of any inconsistency between the Ethiopian and the English versions of the Anti-Corruption Guidelines.

- (l) Final Beneficiaries are eligible for the project only if acceptable under FATF rules, as amended and supplemented from time to time.

C. Sub-Loan Documentation & Review

- (i) For all sub-loans, including sub-loans not subject to prior review, the PFI shall furnish to DBE a complete sub-loan package comprising of:
- Disbursement Request.
 - Report to DBE indicating, at a minimum, the name of the borrower, the amount lent, the type of sub-project and the confirmation that it is in line with the environmental and social requirements as detailed in the PFI's ESMS.
- (ii) For the first two sub-loan (irrespective of size) made by each PFI, the World Bank will carry out a prior review of each sub-loan package to determine its compliance with all applicable sub-loan and sub-project requirements, and inform the PFI, through DBE, in writing of its acceptance of the package or of any remedial action required, as the case may be.
- (iii) For all sub-loans, not subject to prior review, the PFI will maintain the required documentation for ex-post review by DBE and the World Bank and EIB for verification of compliance with all sub-project and sub-loan terms and conditions. All underlying documentation pertaining to sub-loans should be maintained by the PFI for the purpose of monitoring and impact assessment during the life of the project (and for certain period after the project), as may be requested by IDA, EIB and/or DBE.
- (iv) The PFI has the full responsibility to ensure that the terms of the sub-project and all expenditures financed with the proceeds of the sub-loan are in compliance with the requirements defined in the loan agreement between the PFI and the Final Beneficiary.

D. Repayment Arrangements for SMEFP

- (i) The PFIs are required to repay interest and principal semi-annually, on July 31, and December 31. The PFIs are required to make payments to the PMT regardless of whether or not they have received payments from their borrowers. The interest due shall be calculated on semi-annually basis.
- (ii) Should a PFI prove unable to on-lend its allocation within 1 year from loan approval and 6 months from the first loan draw down, or if there are breaches in complying with the terms of the credit facility after drawn, DBE would be free to allocate the remaining amount to another PFI.

- (iii) The right of a PFI to use the proceeds of its respective subsidiary credit shall be: (i) Suspended upon failure of such PFI to perform any of its obligations under its Credit Facility Agreement or failure to continue to be in compliance with all legal and regulatory requirements applicable to its operations and (ii) Terminated if such right shall have been suspended pursuant to the above paragraph for a continuous period of sixty (60) days.
- (iv) If a PFI utilizes IDA or EIB funds for ineligible expenditures, it shall be asked to refund to the Special Accounts all IDA and/or EIB -financed amounts that have been improperly used. Failure to address the issue and/or refund by a given deadline would result in suspension.
- (v) If a PFI fails to observe and/or fails to ensure that its clients observe applicable WB and EIB policies (e.g. environmental and social risk management requirements, anti-corruption) it shall be asked to correct the mistakes by a certain deadline, or else refund to the Special Accounts all WB and EIB -financed amounts that have been improperly used. Failure to address the issue and/or refund by a given deadline would result in suspension.
- (vi) If a PFI becomes insolvent, or shows negative profitability, it will be given a deadline to improve its capital and/or financial position, or else the IDA and/or EIB -funded credit portfolio will be moved to the PMT or a PFI which continues to meet the criteria. Such a PFI will be selected on a competitive basis. The insolvent PFI will be suspended from the project.
- (vii) In cases when it has been established beyond reasonable doubt that a PFI's board of directors or managers are not "fit and proper", DBE will inform NBE and ask for appropriate interventions. Should the situation persist, the IDA and/or EIB-funded credit portfolio will be moved to the PMT or a PFI which continues to meet the criteria. Such PFI will be selected on a competitive basis.
- (viii) The actions needed to address the specific issues mentioned above and the deadlines by which the actions need to be completed will be defined by the PMT in agreement with the WB and EIB on a case by case basis.

3.6 Environmental and Social Risk Management

- (i) DBE and other PFIs will be responsible for ensuring compliance of the activities related to the credit facility component of the project, including compliance with the applicable environmental and social requirements set for the project.

- (ii) All sub-loans to be financed under the SMEFP will comply with the applicable environmental and social requirements. These requirements will include the relevant laws and regulations of the Federal Democratic Republic of Ethiopia, List of Excluded Activities⁸ (see Annex 3.2), and, for higher risk sub-credits, relevant requirements of the World Bank Performance Standards 1 through 8.
- (iii) DBE will put in place and maintain an Environmental and Social Management System (ESMS) commensurate with the scope and scale of environmental and social risks and impacts under the project. DBE will also ensure that all PFIs develop and maintain an ESMS commensurate with the level of social and environmental risks in their portfolio and prospective business activities.
- (iv) The ESMS for DBE and each PFI will include, at a minimum, the following elements:(i) policy statement, endorsed by senior management, outlining the scope of the ESMS and applicable requirements as stated above; (ii) description of organizational capacity and responsibilities for environmental and social risk management; (iii) procedures for screening and assessing risks and impacts of sub-projects or individual loan transactions (including environmental and social categorization); and (iv) provisions for periodic progress reports to the PFI's senior management, to DBE, and other parties, as appropriate. The ESMSs for DBE and the PFIs shall be approved by the Bank in a written memorandum.
- (v) DBE will also manage the working conditions of their workforce in accordance with relevant aspects of the World Bank Performance Standard 2 on Labor and Working Conditions, e.g. through development and implementation of appropriate human resource policies and procedures acceptable to the Bank, and will require the same of the PFIs.
- (vi) DBE will publicly disclose, and cause PFIs to disclose, elements of its ESMS and provide consolidated environmental and social performance reporting to the Bank at least annually.
- (vii) DBE, with support from the TA provider, will ensure that DBE's and other PFI's designated E&S staff, as well as credit/ loan officers, are adequately trained to conduct the screening and that this is incorporated in the credit procedures of PFIs. The TA provider will be required to have adequate knowledge and capacity to support the development, strengthening, and implementation of the ESMS by the DBE and the PFIs.

⁸These activities are prohibited for World Bank Group and EIB support. DBE may choose to prohibit financing of such activities in its other lending operations, as specified in the DBE's ESMS.

3.7 Results Framework and Monitoring

A summary of the reports to be provided by DBE and other PFIs is summarized in the table below.

Table 3.5: Reporting Schedule

Responsibility	Monthly	Quarterly	Annually
DBE	Basic Project Indicators (Table 3.7)	- Project Progress and Performance Indicators PFI (Table 3.9) - Report on DBE's compliance with institutional development plan -Summary report on sub-credit and beneficiaries presented to the Bank - Consolidated unaudited IFRs submitted to the Bank (to be submitted within 45 days of quarter end). - Financial report to be submitted to FeSMMIDA, MOFEC). FM Table 3.12.	- Submit report certified by auditor on DBE's compliance with institutional development plan. -Consolidated annual accounts -Annual audited financial statements and audit report (to be submitted within 6 months of the end of the fiscal year) - Audited Project Financial Statements and audit opinion (including Management Letter) - Government's response to findings of the annual Audit Report to be submitted to IDA and Action Plan for any follow-up actions. - Project result indicators (Table 3.6)
Other PFIs	Monthly disbursement report	-Performance Indicators (Table 3.8) - Quantitative and qualitative reports submitted to DBE on sub-credits and beneficiaries - Unaudited IFRs (within 30 days of quarter end) Report on key financial indicators (Table 3.10). FM reports (Table 3.11)	-Annual audit report to be submitted to DBE

DBE will be responsible for monitoring the project's progress against the Project Development Indicators for the SMEFP. These are presented below for reference only.

Table 3.6: Project Results Indicators (for WB and EIB’s LoCs): Cumulative Target Values directly

	Name	Baseline	YR 1	YR 2	YR3	YR4	YR5	YR6
1.	Volume of Financial Support to SMEs under the credit facility (Amount(USD))	0	0	25,000,000	75,000,000	155,000,000	220,000,000	269,000,000
2.	Number of SMEs Reached with Financial Services under the credit facility (Number)	0	0	200	600	1,240	1,760	2,152
3.	Number of Loans/ Leases disbursed to SMEs under the credit facility (Number)	0	0	360	1080	2,232	3,168	3,873
4.	Portfolio Quality under the credit facility (Percentage of non-performing loans)	n/a	n/a	8	8	5	5	5

In addition, to monitor the project against agreed PD Indicators, DBE will prepare and submit to the World Bank, monthly and quarterly reports. The templates are as follows:

Table 3.7: Monthly Summary Table to be prepared by DBE and sent to the World Bank and EIB:

No.	PFI Name	Total amount lent to sub-borrowers as of xx

Quarterly reports will consist of quantitative performance indicators of the PFI, compliance of DBE with the implementation of its institutional development plan, and narrative on the key achievements and problems of the project, as well as on how PFIs are tackling overdue loans. The template for the data to be included in the quarterly monitoring report is as follows:

Table 3.8: Quarterly Monitoring Report of Project’s Intermediate Indicators by other PFIs (cumulative)

	Q-1	Q-2	Q-3	Q-4
Number of Loans/ Leases disbursed to SMEs				
Amount of Loans/ Leases disbursed to SMEs				
Number of Loans/ Leases Repaid to PFI				
Amount of Loans/Leases Outstanding to PFI				
Number of Loans/ Leases Outstanding to PFI				
Amount of Loans/Leases Repaid to the PFI				

Table 3.9: Quarterly Summary Monitoring Report of Project’s Intermediate Indicators by DBE

	Q-1	Q-2	Q-3	Q-4
Number of Loans/ Leases disbursed for all activities by PFIs				
Amount of Loans/ Leases disbursed for all activities by PFIs				
Number of Loans/ Leases Repaid to PFIs				
Amount of Loans/Leases Outstanding to PFIs				
Number of Loans/ Leases Outstanding to PFI				
Amount of Loans/Leases Outstanding to PFIs				

Table 3.10: Quarterly Monitoring Report of Key Financial Indicators by PFIs

	Q-1	Q-2	Q-3	Q-4
Regulatory Liquidity Ratio (as defined by NBE)				
Capital Adequacy Ratio (NBE)				
Single Credit Exposure Limit				
PAR 90				
NPL				
Net Fixed Assets				
Net Income				

Table 3.11: Quarterly Report by PFI to DBE for FM Purposes

No.	Name of Sub-Borrower	Date of Agreement between PFI and SB	Amount of sub-loan	Amount spent by SB – Q-1	Amount spent by SB – Q-2	Amount spent by SB – Q-3	Amount spent by SB – Q-4	Amount Outstanding at year end

Table 3.12: Quarterly Report by DBE to the WB and EIB for FM purposes

No.	Name of PFI	Total Amount lent to SB as of Quarter Ending xxx	Total Amount spent by SB as of Quarter Ending xxx	Total Amount Outstanding to SB as of Quarter Ending xxx

3.8 Financial Management Reports

This is a summary of the main requirements to comply with Financial Management conditions for the credit facility. See the FM for detailed report formats.

It is the responsibility of DBE to receive and review reports from PFIs and prepare consolidated quarterly unaudited Interim Financial Reports (IFRs), consolidate annual accounts, and facilitate the external audit of the consolidated accounts for the credit facility. The consolidated IFR must be submitted to the WB/EIB within 45 days of the quarter end. IFRs format is attached as Annex 3.6.

The format of IFRs will be produced from the accounting system and will include:

- A statement of sources and uses of funds and opening and closing balances for the quarter and cumulative.
- A statement of uses of fund that shows actual expenditures, appropriately classified by main project activities (categories, components, and sub-components). Actual versus budget comparisons for the quarter and cumulative will also be included.
- Notes and explanations.
- A statement on movements (inflows and outflows) of the project Designated Account, including opening and closing balances.
- Other supporting schedules and documents.

DBE will also submit annual audited financial statements and the Audit Report within six months of the end of each fiscal year. TOR for audit is attached as Annex 3.7. The annual financial statements will adopt the same format as the quarterly reports and may also include other issues. For monitoring purposes, DBE will send financial reports to the Ministry of Finance and Economic Cooperation and to the Federal Small and Medium Industries Development Agency, the WB and the EIB.

IV. PROCUREMENT

4.1 Introduction

The implementation of the SMEFP entails procurement of a variety of goods and services. The SMEFP Procurement Manual provides guidance on procurement planning, implementation and reporting, and is the source of detailed guidance for SMEFP procurement management. The guidelines are summarized in this chapter but should be consulted directly by implementers on a regular basis.

4.2 Scope of Procurement

The implementation of the SMEFP entails procurement of a variety of goods and services.

These include:

- **Goods:** Supply, installation, and commissioning of the hardware and associated software and licenses for the collateral registry, vehicles, office furniture and equipment
- **Non-consulting Services:** transport, printing, etc.
- **Consulting Services:** Collateral registry – diagnostic and provision of capacity building and training related to the adoption of the new IT, hardware and software solutions (international or local TBD), BDS Needs assessment of SMEs in Ethiopia, Business Development Services to 912 SMEs, M&E design, baseline survey, technical assistance, studies, reviews, project audits, impact evaluations, etc.
- **Training and Workshops including Counseling Service:** various trainings and workshops

4.3 Procurement Guidelines

Procurement for the SMEFP shall be carried out in accordance with the World Bank's 'Guidelines for Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 and revised in July 2014 (the 'Procurement Guidelines'); 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 and revised in July 2014; 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, (the Anti-Corruption Guidelines)', dated October 15, 2006 and revised in January 2011; and the provisions stipulated in the Legal Agreement.

4.4 Principles of Good Procurement

Procurement under the SMEFP must be carried out with due regard to economy, efficiency, effectiveness, transparency and the need to ensure fair competition.

IDA's Articles of Agreement set out the principles on which IDA's procurement requirements are based:

- That arrangements shall ensure that the proceeds of any financing under this project are used only for the purposes for which the financing was provided, with due attention to considerations of economy, efficiency and competitive international trade and without regard to political or other non-economic influences or considerations; and
- Funds provided under this project will be made available to the recipient only to meet expenses in connection with the SMEFP as they are actually incurred.

Implementing agencies at all levels, as well as contractors, suppliers, and consultants, must observe the highest standards of ethics during procurement and execution of contracts financed under the SMEFP.

4.5 The Procurement Plan

The first and most important step in the procurement cycle is the identification of the required items and services to be procured and determine when those goods/services are required for the sub-project/activity in question. This requirement shall be reflected in the procurement plan and the program implementing institutions shall perform proper planning for all procurement activities in order to ensure that they meet their needs in the most effective, economical and timely manner.

A procurement plan (PP) is a legal document required in the procurement process. Annual PPs shall coincide with budgets and targets to be achieved. Plans shall address the technical, operational, management, financial and other significant considerations. This should be carried out by the user section/entity and should result in clear identification of the items and corresponding specific functional and service requirements. Officers at all levels that are engaged in planning and managing procurement must be aware of all governing legislation and the agreed procurement rules and procedures in order to inform decision-making processes.

Once procurement needs have been identified and specified, the concerned program implementing institutions will ensure that procurement is carried out in time. For this a procurement plan will be prepared giving sufficient lead time for the process. Program implementing institutions will ensure that appropriate approvals at each level are in place. Separate Procurement Plan will be prepared for consulting service, goods, works and non-consulting services.

Procurement plan should be approved by SMEFP bid approval committee. All procurement plans and their respective updates shall be reviewed and cleared by the World Bank prior to commencement of the procurement process.

Procurement should be carried out in accordance with the provisions in the approved procurement plan. Procurement activities carried out without an approved procurement plan are considered as ineligible expenditures and are not financed through program fund.

The duration of time required to properly carry out each stage of procurement activities should be estimated carefully to develop a realistic plan. The procurement plans will be regularly updated during the course of the project, to reflect changes in project implementation. Procurement planning formats are provided in the Procurement Manual.

4.6 Procurement Processes and Procedures

SMEFP procurement procedures are designed to ensure transparency of the procurement process through a variety of methods depending on the size of the procurement and on what is being procured (works, goods, non-consulting services or consulting services). The table below provides ceiling amounts and procedures for shopping, National Competitive Bidding and International Competitive Bidding, and presents World Bank review requirements for bidding as well as direct contracting.

4.6.1 Procurement of goods, works and non-consulting services

SMEFP procurement methods will vary depending on the nature and size of the procurement. The agreed methods of procurement for goods, works and non-consulting services are: International Competitive Bidding, National Competitive Bidding, shopping, limited international bidding, direct contracting, procurement from UN agencies, and community participation. The procurement of works and goods through ICB contracts, which is done only at the federal level, will use the World Bank's Standard Bidding Documents, while procurement for NCB contracts will follow standard Government procedures and use Federal Standard Bidding Documents agreed with or satisfactory to the World Bank, with the few exceptions provided under Section 4.6.5.

Table 4.1: Procurement thresholds for works, goods and non-consulting services

Procurement method	Estimated value			Standard Bidding Documents
	Works	Goods	Non-consulting services	
ICB	\$7,000,000 and above	\$1,000,000 and above	\$1,000,000 and above	Use WB Standard Bidding document and prequalification document
Prior review threshold	\$5,000,000 and above	\$500,000 and above	\$500,000 and above	
NCB	Between \$200,000 and \$7,000,000 (with prior review for amounts \geq \$5,000,000)	Between \$100,000 and \$1,000,000 (with prior review for amounts \geq \$500,000)	Between \$100,000 and \$1,000,000 (with prior review for amounts \geq \$500,000)	Use Federal Government's Standard Bidding Document or Bank's SBD with few exceptions
Shopping	Below \$200,000	Below \$100,000	Below \$100,000	Use the RFQ Document provided in the Procurement Manual
Limited International Bidding	Can only be used on an exceptional basis, when there are only a limited number of known suppliers worldwide			
Direct Contracting	Below \$100,000; require task team leader's Review and approval; \$100,000 and above will require World Bank full Prior Review			

- **International Competitive Bidding:** Contract packages for works estimated to cost US\$7 million equivalent per contract and above, and contract packages for goods estimated to cost US\$1 million equivalent per contract and above will be procured through ICB procedures.
- **National Competitive Bidding:** Works contracts estimated to cost less than US\$7 million equivalent per contract and goods contracts estimated to cost less than US\$1 million equivalent per contract would be procured through NCB procedures. Works contracts of US\$5 million and above, and goods contract of US\$500,000 and above will be subject to World Bank prior review.
- **Shopping:** Small works contracts estimated to cost less than US\$200,000 per contract and goods contracts estimated to cost less than US\$100,000 per contract may be procured through shopping procedures by comparing prices for quotations received from at least three (3) reliable contractors or suppliers. In such cases, request for quotations shall be made in writing and shall indicate the description, scope of the works, the time required for completion of the works and the payment terms. All

quotations received shall be opened at the same time. As a general rule, a qualified supplier who offers goods or materials that meet the specifications at the lowest price shall be recommended for award of the contract.

- **Limited International Bidding (LIB)** for goods may exceptionally be used when there are only a limited number of known suppliers worldwide.
- **Direct contracting** can be used when it is considered beneficial to the programme. In SMEFP there may be circumstances which justify direct contracting by implementing agencies, where there is only a single supplier contractor or service provider for the provision of small value goods, works and services. Direct contracting below US\$100,000 will require Task Team Leader's review and approval while for amounts \geq US\$100,000 and above will require full World Bank review and approval.
- **Procurement of mass media broadcasting services.** Implementing agencies may require radio broadcasts and television programs to disseminate information on the objectives and achievements of the project, use of new technologies, and so on. In Ethiopia, radio and television programs with a wider coverage are limited to the Ethiopian Broadcasting Corporation and some regional radio and television stations which are state-owned enterprises. A study of the media outlet in the country clearly indicates that there are no private sector alternatives in the provision of airtime services with wider coverage to reach the clientele of the project. In view of this, project implementing agencies may procure airtime for broadcasting services from the Ethiopian Broadcasting Corporation and Oromiya Television on a direct contracting basis according to the procedures outlined in paragraph 3.7 of the Procurement Guidelines.
- **Procurement of non-consulting services.** Depending on the nature of the services, procurement of non-consulting services, such as transport services, will follow procurement procedures similar to those stipulated for the procurement of goods. NCB procedures acceptable to the Bank would be used for contracts above an estimated monetary amount of US\$100,000. Contracts valued at less than US\$100,000 equivalent shall use Shopping procedures in accordance with the provisions of paragraph 3.5 of the Bank's Procurement Guidelines. The procurement of non-consulting services shall follow the Bank's existing SBD for ICB or national SBDs for NCB, with appropriate modifications.

4.6.2 Selection of consultants

The project will make use of consultant services for technical assistance, capacity building activities, studies, and annual financial, procurement, commodity and roving audits of project activities. World Bank prior review thresholds for consultants are indicated in Table 4.2 below.

Table 4.2: Prior Review Thresholds for Consultants

Type of consultant	Prior Review Threshold	National Shortlist Max Value
Consultants (firms)	\$200,000 and above	Below \$200,000
Consultants (engineering & works supervision)	\$300,000 and above	Below \$300,000
Consultants (individuals)	\$100,000 and above	N/A

All consultancy services for the selection and employment of procurement and legal consultants, regardless of the contract amount, shall be subject to World Bank’s prior review.

TORs for all contracts shall be cleared by the World Bank.

4.6.2.1 Selection of consultants (firms)

The agreed methods of procurement for consultants are:

- Contracts above US\$200,000 will be awarded through the use of the **Quality and Cost-Based Selection (QCBS)** method described under Section 2 of the World Bank Consultant Guidelines. Most consultancy contracts with firms will use this approach.
- Consulting Services for audit and other contracts of a standard or routine nature may be procured under the **Least Cost Selection method (LCS)** described under Section 3.6 of World Bank Consultant Guidelines.
- **Single Source Selection (SSS)** of consulting firms or individuals would be applied only in exceptional cases if it presents a clear advantage over competition when selection through a competitive process is not practicable or appropriate. SSS would be made on the basis of strong justifications and upon World Bank’s concurrence to the grounds supporting such justification.
- Consulting services of small assignments may be procured through the **Selection Based on the Consultants’ Qualifications (CQS)** method.
- For engineering & works supervision, shortlists of consultants for services estimated to cost less than US\$300,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

4.6.2.2 Selection of individual consultants

Individual consultants will be selected on the basis of their qualifications by comparison of CVs of at least three candidates from those expressing interest in the assignment or those approached directly by the Implementing Agency in accordance with the provision of Section V of the Consultant Guidelines. The selection of individual consultants will normally be subject to post review. Prior review will be done in exceptional cases only, e.g., when hiring consultants for long-term technical assistance or

advisory services for the duration of the project, and prior review of these contracts will be identified in the procurement plan.

4.6.3 Operating costs

Incremental operating costs include expenditures for maintaining equipment and vehicles; fuel; office supplies; utilities; consumables; workshop venues and materials; and per diems, travel costs, and accommodation for staff when travelling on duty during implementation of the SMEFP, but excluding salaries of civil/public servants. These will be procured using the Government's administrative procedures, acceptable to the World Bank. Operating expenditures are neither subject to the Procurement and Consultant Guidelines nor to prior or post reviews. Operating expenditures are verified by Task Team Leaders and Financial Management Specialists.

4.6.4 Training and workshops

The SMEFP will fund training activities, including capacity building. The SMEFP training plan shall be prepared by the PIU and shall be approved by the World Bank. The training plans would include details on the following:

- Type of training to be provided
- Number of participants to be trained
- Duration of training, and estimated cost
- Institutions selected based on their expertise
- Expected learning outcomes

Training and workshops shall be prior reviewed as a part of the annual work plans of the programme.

4.6.5 Standard bidding documents

The World Bank's **Standard Bidding Documents (SBDs)** will be used for all tenders for procurement of goods and works under ICB. The World Bank's **Standard Request for Proposals (SRFP)** will be used for selection and employment of consultants under the project. In addition, the implementing agencies will use **Standard Bid Evaluation Form** for the procurement of goods and works for ICB contracts, and **Sample Form of Evaluation Report** for selection and employment of Consultants.

National/Standard Bidding Documents acceptable to the World Bank may be used for procurement of goods, works and non-consulting services under NCB procedures, subject to the exceptions indicated below. Alternatively, the World Bank's SBDs could be used with appropriate modifications. The implementing agency may use the World Bank's Sample Form of Evaluation Report for procurement of goods and works for NCB contracts.

Exceptions from the use of National Standard Bidding Documents for procurement of goods, works and non-consulting services are as follows:

- The introduction of requirements for bidders to sign an Anti-Bribery pledge and/or statement of undertaking to observe Ethiopian Law against fraud and corruption

and other forms that ought to be completed and signed by him/her may be included in bidding documents if the arrangements governing such undertakings are acceptable to the Association.

- If pre-qualification is used, the World Bank's standard prequalification document shall be used.
- No margin of preference shall be granted in bid evaluation on the basis of bidder's nationality, origin of goods or services, and/or preferential programs such as but not limited to small and medium enterprises.
- Mandatory registration in a supplier list shall not be used to assess bidders' qualifications. A foreign bidder shall not be required to register as a condition for submitting its bid and if recommended for contract award shall be given a reasonable opportunity to register with the reasonable cooperation of the Government of Ethiopia, prior to contract signing. Invitations to bids shall be advertised in at least one newspaper of national circulation or the official gazette or on a widely used website or electronic portal with free national and international access.
- Bidders shall be given a minimum of thirty (30) days to submit bids from the date of availability of the bidding documents.
- All bidding for goods shall be carried out through a one-envelope procedure.
- Evaluation of bids shall be made in strict adherence to the evaluation criteria specified in the bidding documents. Evaluation criteria other than price shall be quantified in monetary terms. Merit points shall not be used, and no minimum point or percentage value shall be assigned to the significance of price, in bid evaluation.
- The results of evaluation and award of contract shall be made public. All bids shall not be rejected and the procurement process shall not be cancelled, a failure of bidding declared, or new bids shall not be solicited, without the Bank's prior written concurrence. No bids shall be rejected on the basis of comparison with the cost estimates without the Bank's prior written concurrence
- In accordance with para.1.16(e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that: (1) the bidders, suppliers, contractors and subcontractors, agents, personnel, consultants, service providers, or suppliers shall permit the World Bank, at its request, to inspect all accounts, records and documents relating to the bid submission and performance of the contract, and to have them audited by auditors appointed by the Association; and (2) Acts intended to materially impede the exercise of the World Bank's audit and inspection rights constitutes an obstructive practice as defined in paragraph 1.16 a (v) of the Procurement Guidelines.

4.7 Margin of preference for goods and works

In accordance with paragraphs 2.55 and 2.56 of the World Bank Procurement Guidelines, the Government of Ethiopia may grant a margin of preference of 15% in the evaluation of bids under ICB procedures to bids offering certain goods produced in Ethiopia when compared to bids offering such goods produced elsewhere. Similarly, the Government of Ethiopia may grant a margin of preference of 7.5% in the evaluation of bids under ICB procedure to domestic contractors.

4.8 Management of Procurement

The PIU at the FeSMMIDA, which is the focal organization for the implementation of the SMEFP, shall coordinate all procurement activities of the project at the central level and shall be responsible for communicating with the Bank on requests for prior reviews. Responsibilities of the PIU will also include procurement of strategic goods and equipment, consolidation of procurement plans for all contracts, placement of adverts for ICB contracts on United Nations Development Business (UNDB) online, supervision of other implementing agencies, coordination of procurement audits, and follow-up on findings.

Procurement will be carried out by the PIU of SMEFP at FeSMMIDA. Planning and timely disbursement of funds are critical to successful procurement processes. Procurement plans should be submitted annually and updated as need arises. Funds for procurement activities should be released once at the beginning of the fiscal year.

4.9 Procurement at PIU

Procurement is based on the SMEFP Annual Plan. The SMEFP Coordination Unit (PIU) is responsible for the preparation and consolidation of this plan, and the procurement itself is carried out by the PIU of SMEFP. All goods and equipment for the beneficiary organizations shall be consolidated and procured centrally by the PIU at FeSMMIDA.

PIU develops a consolidated procurement plan based on an assessment of capacity building requirements by each beneficiary organization of the project. The PIU then forwards this plan to the World Bank for approval.

The PIU then procures the goods and services listed in the procurement plan in line with the procurement procedures detailed below. The steps of these processes are as follows:

Table 4.3: Procurement Processes and Responsibilities at PIU/FeSMMIDA

Step	Activity	Responsibility
1	Preparation of Procurement Plan	SMEFP Procurement Specialist (PIU/Beneficiary Organizations)
2	Approval of Procurement Plan	FeSMMIDA Bid Approval Committee
3	Preparation of bidding documents/RFPs	SMEFP Procurement Specialist(PIU)
4	Approval of bidding documents/RFPs	FeSMMIDA Bid Approval Committee
5	Bid/proposal opening	Bid Opening Committee (PIU/FeSMMIDA/Beneficiary Organizations)
6	Bid/proposal evaluation	Bid Evaluation Committee (PIU/FeSMMIDA/Beneficiary Organizations)
7	Approval of evaluation reports	FeSMMIDA Bid Approval Committee
8	Preparation of contract document	SMEFP Procurement Specialist(PIU)
9	Contract award/signature	FeSMMIDA/responsible department

4.10 Record Keeping

Procurement filing has specific characteristics. Files must be based on the procurement categories (goods, consultant services/training) and span the entire procurement process per contract in each category in an efficient and easily accessible manner (from advertising to contract signature and management). This system should best be maintained professionally in order to remain useful for at least 2 years period beyond the closing date of the program.

The PIU at FeSMMIDA is responsible for proper record keeping and filing of procurement records for ease of retrieval of procurement information. The PIU is responsible for keeping procurement records in an organized manner and in a secure place. The procurement unit at the PIU should be provided with required facilities for proper record-keeping.

Each contract shall have its own file and should contain all documents on the procurement process in accordance with the requirements and as described in the procurement manual. The mandatory lists of records to be kept are also provided in the Procurement manual.

4.11 Monitoring and Evaluation of Procurement Performance

PIU procurement specialist is responsible for monitoring and supervising SMEFP procurement. The PIU consolidates and prepares the procurement performance report and submits on quarterly basis to the Coordinator of the PIU. The PIU will avail these reports during the regular joint review and supervision missions.

World Bank staff or consultants selected by the Bank carry out semi-annual supervision missions to conduct field visits, of which at least one mission will involve post review of procurement actions. During such missions, SMEFP Project Coordinator and the procurement specialist are responsible for availing the procurement plan, contract register, all procurement documents, and the procurement implementation status report to the mission.

V. FINANCIAL MANAGEMENT

5.1 Introduction

The Financial Management Section of the PIM defines the objectives, targets, mechanisms, criteria and documents that shall be used in the course of implementation of the SMEFP. This manual is an operational document containing finance procedures; and prepared in order to establish sound internal control systems, efficient fund utilization and uniform and consistent accounting system in adherence with financing agreement, financial management and disbursement guidelines of the World Bank. The Financial Management System is to support the management in deployment of the project resources with the purpose of ensuring economy, efficiency and effectiveness in the delivery of outputs required to achieve desired outcomes.

The primary objective of the SMEFP's financial management system is to track resources and expenditures of the project and generate timely financial information, prepared in a transparent and consistent format which facilitates better planning and control by the management in implementing the SMEFP and has the following three specific objectives:

- a. Reporting: The Financial Management System shall provide accurate and timely financial reporting to the management and financier according to prevailing rules and agreements;
- b. Control: The Financial Management System shall provide for efficient control and monitoring of the use of funds and other assets available to SMEFP and the progress towards the achievement of the project objectives;
- c. Information: The Financial Management System shall provide the management with the necessary financial and management information required to ensure efficient implementation of the project.

Establishing a proper financial management system is of paramount importance for ensuring that allotted funds are used for the intended purposes.

The main purpose of this manual is to provide the basic rules and procedures for fund receipts, reimbursements, disbursements, accounting, reporting and auditing activities of the project. It is intended to guide the project implementing agencies in general and the PIU in particular in discharging their responsibilities. The PIU Financial Management Specialist is especially responsible for ensuring that the accounting system, procedures and control set out in this manual are applied consistently, efficiently and effectively. Hence, the policies and guidelines in this financial management system convey standards for sound financial management and administration for the SMEFP, and are designed to:

- Promote orderly, economic, efficient and effective operations consistent with the SMEFP objectives;
- Prevent and detect fraud and errors;
- Ensure accuracy and completeness of the accounting records;
- Facilitate timely preparation of financial information and ensure that financial statements are fairly and accurately presented;
- Safeguard SMEFP assets; and
- Ensure compliance with applicable laws, financial policies and regulations.

The financial management of the SMEFP shall be carried out in accordance with the procedures established under this Chapter. Changes in the accounting policy will be accepted from the date of amendment with approval by the World Bank and the Project Steering Committee. The retroactive procedure will not be permitted as well as the amending of financial results or the previous (past) accounting periods.

This manual mainly focuses on detail financial management and accounting procedures to be applied by PIU of FeSMMIDA. DBE will use its existing financial management and accounting systems, and develop system to channel the project fund and collect reports from intermediary financial institutions and leasing companies. However, the budgetary process and control, and fund flow and disbursement arrangement is described for both implementing agencies FeSMMIDA and DBE in paragraph 5.4 and 5.5 in this manual respectively.

5.2 Accounting Policies

- In recording and reporting the financial transactions of SMEFP, the internationally accepted accounting standards/principles will be followed.
- Modified cash basis of accounting will be used in matching the source and expenditure of fund with a double entry accounting system. To facilitate control, a modified cash basis double-entry system will be maintained on “Peachtree accounting software”. Other suitable accounting software could be considered if so desired.
- Fixed assets are treated as project expenditures at the time of purchase without applying the rule of depreciation. However, proper fixed asset record is maintained for the assets with value of more than Birr 5,000 and expected life more than one year to ensure adequate internal control over fixed assets.
- Revenues are recognized when funds are actually collected and expenditures are recognized when actual payments are made. In addition, direct payments/special commitments, payments made to third parties by the Bank on behalf of the Project, are recognized as revenue and also reflected in the expenditure. Accrued liabilities are recorded as expenditure.
- Consumable materials will be recorded as expenditure upon purchase. There will be no need to show year-end counts due to the fact that there will be no

substantial inventory items rather small consumable items such as stationery and office supplies because of the project nature.

- Transactions are recorded in local currency, Birr. Expenditures in local currency are converted to USD, when the reports in USD are needed, at the exchange rate on the latest date of funds received from financier. Foreign currency gain or loss is recognized at the end of financial year, closing date of books of the project accounts.
- Records and documents for all financial transactions will be maintained at PIU.

5.3 Fiscal Year

The financial year of SMEFP for the components implemented by FeSMMIDA is that of the Ethiopian Government, starting from July 8 of the preceding year to July 7 of the current year. The financial year for DBE is July 1 to June 30.

5.4 Budgetary Process and Control for SMEFP

Components implemented by FeSMMIDA: Budgeting is a process of planning and controlling of the use of resources for achieving the desired objectives during a defined period. The SMEFP annual budget is based on the project work plan and procurement plan.

The objectives of budgeting are to:

- enable the project to prioritize and allocate the use of its limited resources,
- evaluate the performance of the project, and
- provide a basis for better planning in the future.

The annual work plan and procurement plan are prepared by Project Implementation Unit of FeSMMIDA for components two, three and four, in close collaboration with NBE given that the latter is responsible for component 2 but will not manage resources from the project.

The Financial Management Specialist will assist the Project Coordinator in preparation of the annual budget in line with the project annual work plan and procurement plan for their respective components. The annual work plan, procurement plan and budget are consolidated by PIU. General procedures for budget preparation, implementation and control are as follows:

- The exercise of budget preparation will begin well ahead before the start of the new financial year.
- Detail activity plan shall be prepared by PIU within the framework of the project targets for intended project purpose. Input from all Specialists needs to be adequately collected. Concerned work units of the implementing agencies need to be consulted.

- Project Implementation Unit shall prepare the budget based on the annual work plan in February which is four months ahead before the start of a new financial year. PIU compiles and finalizes approval of the budget by PSC in March which is three months ahead before the start of a new financial year.
- The approved budget shall be communicated to the World Bank for supervision and monitoring physical and financial performance of the project.
- Afterwards, FeSMMIDA will include the budget of the project in to its own annual budget and work plan and submit it to MoFEC following the government’s budget calendar. The budget will be proclaimed under the name of FeSMMIDA after being endorsed by the Council of Ministers.
- Budget monitoring shall be carried out by the PIU coordinator in close collaboration with the Financial Management Specialist and other staff of the project and FeSMMIDA to ensure that total expenditure planned at the budget stage is adhered to as much as possible during the budget implementation and to ensure that the fund allocated for execution of the project is expended as planned. This process helps measuring how closely the project meets its objectives in terms of its finance.
- Monthly budget breakdown shall be prepared and implementation follow up shall be undertaken.
- The budgets shall form the basis for performance evaluation and comparing planned financial expenditures with actual expenditures.
- The PIU Financial Management Specialist is responsible for the preparation of the variance analysis which will be submitted to management to serve as a decision making tool of project implementation. Explanation on the variances is to be provided by the technical experts in the various areas.
- Budget revision can be made on bi-annual basis. The same procedures of annual work plan and budget shall be followed.
- The Interim Financial Report uses a budget and actual and variance analysis as one of the budget monitoring mechanisms. In the budget monitoring process of budgetary control, Financial Management Specialist shall (i) check the availability of budget for each expense transaction, (ii) prepare budget monitoring report on quarterly basis, (iii) review the report and highlight material variances, and (iv) consult with the project team to determine if there is a need to make adjustment to the budget.

Component implemented by DBE: DBE will receive the annual budget from participating lease companies, MFIs, and commercial banks for line of credit (leasing and working capital). Using its experience and professional judgment, DBE will approve an annual work plan and will submit it to the World Bank, European

Investment Bank, the DBE management and the Board of management for approval. Once approved, it must be forwarded to Public Financial Enterprises Agency (PFEA) for final authorization. The budget of DBE will not be proclaimed in the government's budget proclamation.

DBE monitors the budget to ensure that it disburses amounts to participating financial institutions and lease companies within the approved budget limit. It also monitors if the financial intermediaries have actually disbursed to the final beneficiaries as per the approved plan.

These monitoring mechanisms will be followed for this project and the quarterly IFRs will report on the budget utilization with adequate explanation for major variances.

5.5 Fund Flow and Disbursement Arrangement

Funds from IDA flow directly to the DBE and FeSMMIDA. Although overall coordination of the project rests with FeSMMIDA, the financial management aspect will be handled by both implementers for the respective components they are managing.

5.5.1 Designated Accounts (DA)

The principal purpose of the DA is to assist the implementing agency in solving cash flow problems and expedite the use of funds by means of:

- day-to-day access to the funds;
- speeding up payment processing;
- providing a better control of payment information for the Borrower;
- reducing the number of the documents to be submitted to the World Bank subject to the World Bank's permission for withdrawal on the basis of SOEs.

5.5.2 Fund Disbursement

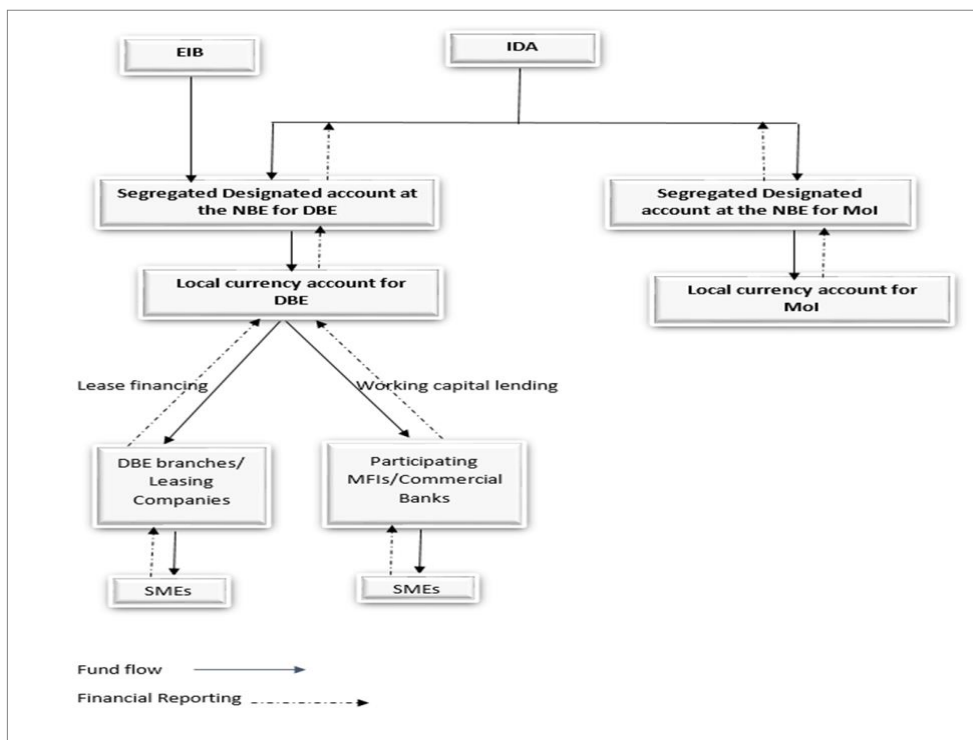
The Project fund will be disbursed in accordance with procedures provided in the World Bank Disbursement Guidelines for Projects" dated May 2006. Specific disbursement mechanisms and procedures are defined in the Financing Agreement, Disbursement Letter of the World Bank. The project funds are disbursed from the World Bank to designated Dollar account at PIU and transferred to other designated local currency account. Also the project funds are disbursed from the World Bank and European Investment Bank to designated Dollar account at DBE and transferred to other designated local currency account.

The following disbursement methods can be used under the project financing:

- i.* Advance and replenishment to a Special Account. Advance payment is the first deposit to the DA as paid from the World Bank's account on the basis of the Withdrawal Application sent by the implementing agency. The IDA fund will be channeled to Designated USD Accounts in both PIU in FeSMMIDA and DBE for implementation of their respective components of the project. Ceiling for advances is US\$500,000 for the PIU in FeSMMIDA and US\$12,000,000 for DBE.
- ii.* Reimbursement of payments for payments the recipient has already made from its own resources;
- iii.* Direct payment to a third party for services provided or goods supplied. This method may be used when relatively large payments are required or when payments are in currencies that borrowers may have difficulty obtaining the currencies; or
- iv.* Special Commitment, if any, to finance the purchase of imported goods under the project, the terms of the contract with the supplier may require the borrower to open a letter of credit. If a commercial bank is unwilling to open, advice, or confirm the letter of credit without some reimbursement guarantee or security, the Bank, at the request of the borrower, will provide the commercial bank with a guarantee in the form of a special commitment.

The minimum value of application for direct payments and issuance of special commitment is US\$100,000 equivalent for eligible expenditures claimed by PIU in FeSMMIDA.

Figure 4.1: Fund Flow



5.5.3 Fund Withdrawal

- PIU is responsible for initiating withdrawals from the IDA credit for implementation of components 2, 3 and 4. DBE is responsible for initiating IDA credit and EIB loan for implementation of component 1. PIU and DBE shall maintain records in respect of IDA funding. The PIU is also responsible for monitoring the status of disbursements from the Special Account and to process applications for replenishment in a timely manner so as to ensure an unobstructed flow of funds to the project.
- Three specimen signatures shall be furnished to IDA for processing withdrawal application to transfer funds to DA at PIU. Similarly, three specimen signatures shall be furnished to IDA for processing withdrawal applications to transfer funds to DA at NBE.
- Disbursement letter will be the main guide on disbursement arrangements in addition to Disbursement Guidelines, May 2006 of the World Bank and the fund withdrawals to be requested as per the requirements stated in the disbursement letter.
- Applications for Withdrawal should be submitted to the Bank online. Payment instructions must show the complete name and address of the payee's bank, the

SWIFT code (for banks that belong to this system), the account number and name as they appear on the account, as well as any references (such as invoice, purchase order, or contract numbers) to ensure proper identification of the payment. In addition, if the payee's bank is not located in the country of the currency of payment, the name and address of the bank's correspondent in that country should be provided. Separate applications are required for each currency requested. Normally disbursements are made by electronic transfer to banks. Electronic Application Form is obtained from the Bank.

- Summary sheets should be attached to the application if the space provided on the Withdrawal Application is insufficient to accommodate contractor/supplier data. Separate summary sheets are normally used if expenditures cover more than one category or subproject. Alternatively, one summary sheet may be used provided items are grouped by category and subtotals provided for each category. Special forms must be used when applications are submitted without documentation under the Statement of Expenditures (SOEs) procedure.
- The “Client Connection” is used to request disbursements and access information with regard to status of withdrawal application and project funds.
- Further information on fund withdrawal can be obtained from the disbursement letter of the project

5.5.4 Maintaining Financial Transactions Records

The main objective of accounting records and maintaining the filing system for physical documents is to ensure that accounting documents are filed in a logical sequence so as to support financial reports and help to establish a clear audit trail and provide feedback regarding the accuracy of the financial reports. The accounting records shall be kept in secure rooms and external auditors shall be given proper facilities to enable them to carry out their audit without having to remove the documents from the project office premises. Separate set of vouchers, supporting documents, records and registers will be maintained for the respective financial years.

5.5.4.1 Foreign Exchange Rate Difference

The balance of the local currency accounts may be affected by foreign exchange rate fluctuations. Variances resulting from changes in foreign exchange rates are reflected as either a loss (in the expense section of the chart of accounts) or an income (in the income section of the chart of accounts) results from foreign exchange rate differences. Realized losses from exchange rate differences cannot be charged as project expenditures.

At the end of the reporting period, the foreign exchange gain or loss is calculated as follows:

1. Identify the ending balance of foreign currency on the “Cash at Bank in Foreign Currency” ledger card.
2. Undertake a bank reconciliation and make any necessary adjustments
3. Obtain the exchange rate as of the end of the day for the period
4. Multiply the reconciled ending balance in foreign currency as shown on the cash in bank in foreign currency ledger card by the exchange rate.
5. Identify the ending balance in Birr on the cash in bank in foreign currency ledger card.
6. If the amount from steps 4 and 5 are equal, there is no foreign currency gain or loss for the period. If the amount from step 4 is larger than the amount step 5, the difference is a foreign currency gain. If the amount from step 5 is larger than the amount step 4, the difference is a foreign currency loss.

5.5.4.2 Accounting Data Backup

Accounting data must be backed up on a regular basis, at least monthly to ensure the recovery of important data in the event of accidental or intentional corruption, loss, or destruction of the data. “**Data backup**” means making a copy of data such that the copy may be used easily to recreate the original data organized in its original format.

As the accounting data is critical to the ongoing operation of the project, a copy of the current data must be made monthly on CD and stored offsite. Offsite storage will facilitate keeping the business operational in the event of a physical disaster at the original site. “**Offsite**” means a physical location other than where data is being processed. Its location must be far enough so that data stored offsite is not subject to the same physical risk from foreseen disasters. Note that, if the objective is to protect against data loss in the event of a building fire or other disaster that restricts access to the building, a location in the same or adjacent building is not suitable as an offsite storage location.

Financial Management Specialist is responsible to make back up of accounting data on CD or other external memory drive each last Friday of the month. Back up copy of the accounting data must be stored offsite.

For offsite backup, the Financial Management Specialist should maintain the following:

- (a) List of offsite locations where backup data may be easily located and retrieved.
- (b) List of procedures that create backup data and cause it to be shipped and stored at the backup site. If there is more than one offsite location, each entry in the list also includes a reference to the corresponding offsite backup location.

5.6 Chart of Accounts

5.6.1 Purpose

Chart of Accounts is a classification of the accounts. It is necessary that vouchers and commitment documents are correctly classified and coded. It is a means by which accounting transactions are related to the work plan and budget.

5.6.2 Coding Structure

The project is designed to carry out activities shown under each of the project components. The budget allocation for the project activities will indicate the expenditure categories (such as goods, works, non-consultancy services, consultants and training/workshop etc.) and expense line items such as purchase of vehicles, payment to staff, training etc. Funds allocated for each expense line item are clearly shown and should be the basis for disbursement and reporting.

The chart of accounts of SMEFP is made up of eight digits. The first four digits represent Government account codes which include cost items and the next two digits denote federal/regions/city administration and the remaining two digits represent cost category and project components.

Mapping of Project Costs to Chart of Accounts

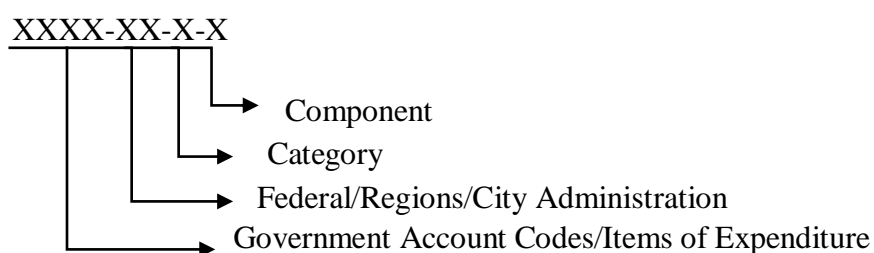


Table 3.1: Codes of Project Components and Categories

Code	Component	Code	Category
2	Enabling environment for SME finance	1	Goods
3	Business Development Services to SMEs	2	Works
4	Project management, communication and impact evaluation	3	Non-Consulting Services
		4	Consultants
		5	Training/Workshops
		6	Operating Costs

The government account code relevant to project account classification/items of expenditure and Federal/Regions/City Administration codes are attached as Annex 5.1. Creditors' and debtors' codes will be provided sequentially when they occur in the

transaction. Any digit(s) without representation in the coding structure will be represented by zero(s). The Financial Management Specialist may amend the charts of accounts and may add the items of expenditure as necessary.

DBE will establish chart of accounts for the credit facilities specifying codes of the financier, leasing and working capital windows, participating financial institutions and DBE branches in its core banking system, T-24.

5.7 Accounting Procedures and Internal Control

5.7.1 General Overview

Internal control is the process designed to provide reasonable assurance that the objectives of the project are being achieved in the following areas:

- effectiveness and efficiency of the operations;
- reliability of the financial and administrative reporting; and
- compliance with the applicable laws and regulations.

An essential feature of an effective system of the internal control is the organizational independence of the operating and accounting functions. Above mentioned determines that different and independent parties may carry out the initiation and authorization of a transaction, its further recording and filing of the resulting asset or liability.

Internal controls are carried out regularly to test the effective functioning of the controls and to improve them.

The internal control function aims to:

- Protect in all respects the intellectual and material integrity of the project;
- Guarantee that all records are comprehensively, correctly and safely protected;
- Prepare project consolidated financial statements for clear opinion of external audits;
- Undertake reasonable and appropriate measures against foreseeable emergency situations;
- Verify that adequate segregation of duties exist between the initiation, authorization, disbursement and recording of functions;
- Verify that internal control procedures and staff responsibilities are clearly defined and adequately documented;
- Verify that expenditures have been executed within applicable procedures and prior authorization, if required;
- Verify that all documentation is maintained for an adequate period of time for the audit purposes as well as the World Bank review.

The project internal control system should be able to ensure that financial records are reliable and complete.

Particularly, the internal control system should ensure:

- 1) proper recording and safeguarding of assets and resources;
- 2) adherence to policies and procedures specified in the PIM, and
- 3) orderly and efficient way of using project resources.

Supporting documentation which provides with fair and verifiable data should accompany all transactions. The first step for record keeping and providing an audit trail process is verifying the supporting documents.

External source usually provides supporting documents, but in some cases they can be prepared internally. Financial Management Specialist records and posts properly authorized transactions into the accounting system that should accurately represent the activity being documented. Both the timing and amount of the transaction should be in accordance with accounting policies, defined in this manual.

5.7.2 Receipts

- a) All money received in cash, by cheque and bank transfer shall be acknowledged by issuing pre-numbered official cash receipt voucher. The cash receipt voucher is prepared in three copies, the original to be passed to the payer, the first copy for accounting entry and the second copy to remain in the receipt pad.
- b) For deposits into bank or transfers into bank, the Financial Management Specialist will prepare a receipt quoting the credit advice issued by the bank.
- c) All transaction documents will be checked and coded, posted to the journal or entered in the computer by Financial Management Specialist who will also produce and verify a journal listing.
- d) Internal control:
 - Only authorized persons shall issue cash receipt on behalf of the PIU;
 - Unused cash receipt vouchers shall be issued in their numerical sequence;
 - A register shall be maintained, indicating the date on which the vouchers were received, issued and fully utilized.

5.7.3 Payments

a) Payments for goods and services

Disbursements for procurement of works, goods, non-consultancy services, consultants, training/workshops and office operation to be acquired shall be executed according to the SMEFP's procurement manual and shall be verified with reference to the following documents:

- Purchase Requisition properly filled and authorized;
- The thresholds for prior approval and application of the relevant procurement type is applied;

- The related purchase procedure is applied;
- Analysis of offers, minutes and recommendations of the tender committee are available and are authenticated;
- Approval of the recommendations by the designated official;
- Relevant terms of the credit agreement;
- The relevant sections of the procurement contract;

b) Payments Related to Contract

The Financial Management Specialist should have a copy of the contract document for verification of the terms and conditions against the disbursement. Payment to the contractor shall be processed with reference to the following points:

- Total Contract Value and any additional contract variations accepted;
- Total value of work done as shown in the payment certificate;
- Deduction for the Advance Payment;
- Retention if any;
- Other Deductions;

The payment to consultants should be as per the terms of payment in the contract which should clearly links the payments to deliverables.

c) Mode of Payments

- The disbursement can be made by cheque or through bank transfer.
- If the disbursement is to be made through bank transfer, the name of the bank and the account number shall be specified in the agreement. Bank transfer costs shall be borne by the project evident by the bank advice. The receipt/bank advice should be attached to the disbursement document. Copy of the letter authorizing the bank transfer shall also be attached to the disbursement document.
- If payment is by cheque, a cheque payment voucher shall be prepared and the recipient shall acknowledge the receipt with an official receipt voucher, a copy of which shall be kept with the disbursement document cross-referenced to the payment voucher. If the recipient is to an individual, having no official receipt he/she should sign on the payment voucher. Any withholding tax shall be deducted as per the law.

d) Cheque Payments

- All other payments that cannot be handled from a petty cash fund are effected by cheque.
- All payments are authorized by Director General of FeSMMIDA. However, payment made regularly with its nature such as payroll is approved by PIU

coordinator and authorized by Director of Procurement, Finance and Procurement Directorate of FeSMMIDA. When cheques are received from the bank, they must be checked for completeness and kept in safe custody of a designated staff.

- Only one cheque book at a time shall be used for cheque preparation.
- Spoiled cheque should be voided by writing ‘VOID’ across its face and the signature portion destroyed. The voided cheque should be retained in the cheque book.
- Cheques must be signed by any two signatories of Director General of FeSMMIDA, Director of Procurement, Finance and Property Administration Directorate and PIU Coordinator.
- Cheques should never be signed in blank and should never be written to SELF or CASH.
- Cheques shall only be prepared against documents approved for payment.
- Cheque payments will be effected against printed and pre-numbered cheque payment vouchers prepared by Financial Management Specialist.
- Cheque stubs shall be completed with date, payee’s name, amount and running balance.
- Cheque payments will be recorded in numerical sequence in a cheque payment register and then posted.
- At the end of each month the cheque payment register will be totaled and the bank account will be reconciled with the bank statement received from the bank each month.

5.8 Petty Cash Operation and Control

5.8.1 Establishment and Operation of Petty Cash

Imprest fund/petty cash shall be used when payment by cheque becomes inconvenient or the amount involved is small.

- The petty cash account is separate from cash on hand account.
- The ceiling amount of the petty cash fund shall be Birr 10,000 (Ten Thousand Only) for SMEFP.
- To establish a petty cash fund a cheque in the authorized amount shall be issued in the name of a designated fund custodian/cashier from PIU/FeSMMIDA who should acknowledge receipt of the cheque on the cheque payment voucher.
- The petty cash fund should be kept in a safe or secured place and should not be mixed with other money.

- Document for petty cash is approved by PIU Coordinator and the payment is authorized by Director of Procurement, Finance and Property Administration Directorate.
- The amount of a single payment from the petty cash shall be limited to Birr 2,000 (Two Thousand). Payment in excess of Birr 2,000 shall be effected by cheque. Petty cash payments include car fuel, small purchases of office supplies and other minor office expenses.

5.8.2 Replenishment of Petty Cash

- When the petty cash fund is reduced to 20% of the float total, the fund custodian will total and complete the petty cash book and then submit it to the Financial Management Specialist for replenishment.
- After checking the accuracy, correctness and approval of the expenditures, the Financial Management Specialist will prepare a cheque payment voucher and a cheque in the name of the petty cash custodian for the total amount of petty cash payments. The petty cash book shall be approved by the Financial Management Specialist.
- After replenishment, all paid receipts shall be stamped “Replenished”, coded and a petty cash posting summary prepared to be attached to the replenishment cheque payment voucher for posting.
- Surprise cash count should be carried out from time to time by Financial Management Specialist and Procurement, Finance and Administration Directorate.

5.9 Per Diem and Travel Advance

5.9.1 Request for Travel Advance

- A travel advance request and approval form should be completed for all duty travel outside duty station.
- The approved travel advance request will be presented to Financial Management Specialist to obtain the required cash advance acknowledging receipt of the advance.
- The travel advance request form should be completed in two copies, the original for the accounts and the copy for the traveling person.
- Travel request of project staff and experts including experts of the FeSMMIDA traveling for the purpose of the project is approved by PIU Coordinator.

5.9.2 Clearance of Travel Advance

- Within five days after returning from duty travel the traveling person shall complete a travel expense report and advance clearing form to be approved by PIU Coordinator. The approved form will be presented to the Financial Management Specialist for clearing the advance. Unused travel advance shall be either deposited to the project bank account directly by the traveler or returned to the petty cash custodian against official receipt voucher. The petty cash custodian will deposit the fund to the project bank account. Any balance due to the traveling person will be reimbursed by cheque or from the petty cash depending on the amount of the balance due.
- Receipts for transportation and other expenses shall be attached to the travel expense report.
- If a travel advance is not cleared in time, it will be deducted from the next available salary of the traveling person. Prior warning shall be given to the traveling person by the Financial Management Specialist.
- The per diem, hotel accommodation rates for SMEFP official duties and project staff benefits package that includes health insurance, transport allowance and cell phone airtime shall be approved by Director General of FeSMMIDA.

5.10 Payroll and Internal Control

Payroll is an item of particular importance because in most cases salaries constitute a significant portion of operating expenses. Also as salaries are usually paid in cash, they are susceptible for fraudulent misappropriations. Hence payroll preparation, payment and recording call for strong internal control. Salaries will only be paid to staff recruited for the project. No salary can be paid to civil servants.

5.10.1 Objectives of Internal Control over Payroll

The objective of a sound system of internal control over payroll is to ensure that:

- Salaries are computed only in respect of duly engaged employees in accordance with attendance records and at authorized pay rates.
- Payroll is computed correctly and correct amounts are paid to the right employees.
- Payroll deductions are properly accounted for and paid to appropriate third parties.
- Transactions relating to salaries are accurately recorded in financial accounts.

5.10.2 Preparation of Payroll and Payment of Salaries

- Monthly payroll is prepared by Financial Management Specialist.
- All information relevant to the monthly payroll should be provided to the Financial Management Specialist by the 26th day of each month; information received thereafter being carried forward to the next month.
 - Payroll shall be prepared and signed by Financial Management Specialist, approved by PIU Coordinator and authorized by Director of Procurement, Finance and Property Administration Directorate.
 - All income from employment such as basic salary, overtime pay, payment in lieu of annual leave and other emoluments are subject to income tax.
 - Income tax computation should be based on current income tax table as prepared by Ethiopian Revenues and Customs Authority. All income earned in one month shall be grossed up when computing income tax. However, bonus, payment in lieu of annual leave, termination compensation and severance pay for a given period shall be prorated over the period and the necessary income tax computed on incremental basis.
 - All deductions from the gross earnings of an employee shall be based on statutory provisions, court orders, and/or written consent of the employee concerned.
 - Calculation of salary for less than one month is done by dividing the actual number of days worked including rest days and holidays during the month by the calendar days of the particular month and multiplied by the basic salary of the employee.
 - Payment of salaries will be handled on a payroll format with columns for name, basic salary, income tax, other deductions, allowances, net salary and signature, which should be prepared in two copies and then approved by the PIU Coordinator. A cheque for the total of net salaries and allowances will be prepared in the name of the petty cash custodian who will handle the payment. Alternatively, cheque may be prepared in the name of each employee on the payroll.
 - Payment of salaries will be effected on the 28th day of each month. If the pay day falls on a rest day or public holiday, the payroll will be paid on the preceding work day.
 - Unpaid salaries should be deposited in bank after five days from pay day. In such cases, the concerned employees will be paid by cheque upon presentation of approved requests.

- Payroll tax should be paid to the appropriate office of the Ethiopian Revenues and Customs Authority within 15 days after payment of salaries.

5.11 Special consideration for accounting at DBE

DBE uses a computerized accounting system which is a product of TEMENOS called T-24 Core Banking system (T-24) release 10 to process and journalize the project's transactions. Chart of accounts will be created for the project and project transactions will be recorded in the DBE accounts. However, the DBE system could not produce the required reports to meet the reporting requirements of the project as a result of difference in treatment of possibly the following two accounts:

- **Account Receivable** (Loan to MFIs, commercial banks and leasing companies): depending on further discussions that will be held regarding the disbursement modality for the project, should the advance method be used for this project, the loan disbursement to the financial intermediaries is captured as receivable and will be settled upon repayment of the loan in the DBE accounts. However, the project is expected to report to World Bank and European Investment Bank the disbursements to MFIs, commercial Banks and leasing companies as receivable and subsequent disbursement by these financial intermediaries to eligible beneficiaries as expenditure/uses of funds/ regardless of repayment of loan proceed to DBE by these intermediaries.
- **Use of Funds:** As stated above the project is expected to recognize expenditure/use of funds/ when MFIs and commercial banks disburse to eligible SMEs for working capital loans. For leasing loans, the level of expenditure recognition will be further discussed. But in the DBE system, these are considered loans hence not seen as uses of funds.

Such treatment differences need to be supplemented with memorandum records, i.e. spreadsheet, so as to produce the required reports as per the Financing Agreement. For existing projects, DBE is maintaining a memorandum record. Such mechanism will also be adopted for this project. It is noted that most category “A” and “B” branches of the DBE are on line with the core banking system which allows the head office to get reports on a daily basis from each branch regarding the approved load for specific products, the sector, the business type and all the loan details. It has been disclosed to us the lease financing could also be identified separately in the system which makes the consolidation process from regions very easy. For existing projects, DBE has a good filing and record keeping mechanism and data entry is done in real-time and accounts are fairly up to date. We also noted that timely backups are taken by IT units and anti-virus is timely updated.

Accounting at MFIs, commercial banks and leasing companies: as per the design of the project, only those financial intermediaries that meet the stipulated eligibility requirements will be able to obtain the status of participating financial institution and their eligibility will be verified annually. It is expected that the normal operating procedures of the MFI/commercial bank/leasing companies will be used for the project. However, for the purposes of this project, there will be an Operations Manual which will highlight the eligibility criteria for on lending to this project's beneficiaries. Accordingly, although the accounting system of the financial intermediary will be used, there is a need to hold memorandum recording which will allow for identifying the resources used for the project and to put in place a proper trail for audit exercise.

Accounting at SME level: sub-loans will be extended to eligible SMEs for working capital loans up to ETB 10 million and lease financing ranging up to 30 million. For these SMEs, special financial management arrangements will not be requested. However, each of the SMEs are expected to maintain proper books of accounts as indicated in the establishment by law of the SMEs. Regional SME development agencies have a responsibility to train the SMEs with good financial management systems and also do reviews and monitoring as to whether the enterprises are keeping up as required. Although the supervision and assistance continues for small and medium enterprises, the annual external audit will be carried out by registered audit firms. These audit reports are required for obtaining loans from MFIs as well as for determining the grading of the SME. Therefore for this project, specific reporting requirements will not be requested from the SMEs but the Operations Manual will indicate that the financing agreement to be signed between the MFIs and the SMEs will include a section on the expected financial management arrangements of SMEs. DBE, the external auditors, the World Bank and European Investment Bank will have access to review the SMEs on a sample basis during implementation support and supervision missions or as required.

5.12 Procurement and Internal Control

5.12.1 General

Outlined here in brief are procedures for procuring goods and services by the SMEFP. Detailed procurement policies, procedures and guidelines are contained in the SMEFP Procurement Manual.

- All personnel involved in procurement should be well versed with the guidelines and requirements of the IDA Credit and Ethiopian Government regulations.
- Orders shall be based on competition so that the most favorable terms and conditions could be obtained from suppliers. Therefore, a minimum of three quotations should be obtained from different suppliers for all orders categorized as national shopping- items which are usually standard available on a shelf. The

amounts and type of procurement are specified in the credit agreement. All types of procurement shall be carried out as per the guidelines of the procurement manual.

5.12.2 Purchasing of Goods

- The purchasing of required items is handled by a purchaser or designated staff from FeSMMIDA. The necessary items may be purchased and stocked for issuance upon request. Other supplies and services may be purchased on a need basis.
- Purchases of items for stock and immediate use shall be approved by PIU Coordinator and authorized by Director of Procurement, Finance and Property Administration Directorate
- Goods receiving note shall be prepared for all stock items purchased.
- Store requisition/store issue note are used to issue the stock which has been received by issuing goods receiving note.

5.12.3 Purchasing and Management of Capital Items (Fixed Assets)

- Purchases of capital items (Fixed assets) will be made as and when required and shall be authorized by Director General of FeSMMIDA.
- All fixed assets must be tagged with a serial number for identification and should be recorded in appropriate register showing sufficient details of the items, i.e. description, date and cost of acquisition, location or place where the item is kept or assigned.
- Fixed assets should be inventoried once a year and reconciled with the register. Their existence, proper utilization and maintenance must be verified and reported.
- Fixed assets are managed by the property management procedures of FeSMMIDA.

5.13 Control over Major Operating Expenses

5.13.1 General procedures

The following procedures are required to maintain an adequate internal control over major operating expenses:

- The PIU Coordinator approves all the payment applications submitted to the PIU by suppliers of goods and services for processing for all incurred expenses.
- The Financial Management Specialist conducts all verification procedures necessary to initiate payments. This includes the reconciliation of payments with the budget and contracts, check for the accuracy of the payment requests and completeness of the supporting documents.
- Financial Management Specialist also checks the appropriateness of the applied procurement procedures.
- The payments are authorized by Director General of FeSMMIDA.

5.13.2 Office Supplies

Operational budget for the project is the basis for procurement of inventory and office supplies. The office supplies shall be physically kept in a secure place. Storage refers to protecting inventory from both damage and shrinkage or theft. Damage control includes maintaining adequate levels of insurance, keeping inventory clean and properly sheltered.

The Procurement Specialist shall prepare office supplies purchase order, sign it and submit it for approval to the PIU Coordinator. Upon purchasing, the purchase order with an enclosed invoice shall be submitted to the Financial Management Specialist for recording.

5.13.3 Vehicles

Internal control over vehicles shall be as follows:

- The property title to office vehicles shall be registered in the name of the implementing agency, FeSMMIDA and used exclusively for project's business operations. The project's vehicles are not allowed to be transferred, leased, rented or in any way provided for use to any person, agency or entity including implementing agency for any purposes other than the project without prior approval of the Bank.
- All vehicles must have full coverage of insurance contracted with local insurance companies on annual basis.
- Fuel for project's vehicles shall be purchased from main fuel distributors using fuel vouchers issued by the PIU Coordinator on a monthly basis.
- The fuel consumption, the mileage passed and the fund used is periodically checked.

5.14 Financial Reporting

The objectives of project's financial reports are to provide information about the financial position, performance and cash flows of the project which can be used by a wide range of users to make decisions on the reallocation of project resources. The financial reports must provide timely and quality information on project performance to project management, IDA and other relevant stakeholders.

5.14.1 Monthly and Quarterly Reports

- The monthly financial reports are prepared for the project management use internally by PIU.
- Two Interim Financial Reports (IFRs) will be required from the project. One will be submitted by DBE, after consolidating the quarterly information from its own branches, participating leasing companies, commercial banks and MFIs. The

other report will be due from FeSMMIDA. Both reports will be due within 45 days of the quarter end.

- For the financial report from FeSMMIDA, the Financial Management Specialist will consolidate the quarterly reports and submit to FeSMMIDA and IDA within 45 days of the end of the quarter.

5.14.2 Annual Reports

- PIU will produce annual financial statements within one and half a month after the end of the fiscal year which ends on 7 July of each year. The financial statements include:
 - i. A Balance Sheet that shows Assets, Liabilities and Fund Balances,
 - ii. A statement of Sources and Uses of Funds showing all the sources of Project Funds, expenditures analyzed by project components and or category,
 - iii. A Designated Account Statement,
 - iv. Summary of Withdrawal using SOE, listing individual withdrawal applications by reference number, date and amount,
 - v. Notes related to significant accounting policies and accounting standards adopted by management and underlying the preparation of financial statements, and
 - vi. A list of material assets procured by the project.
- These statements will be submitted to the external auditors within 60 days after the end of the fiscal year.

The financial statements of one accounting period should be prepared on a basis consistent with that of previous periods in order that these financial reports may be compared with one another. This means that the same types of income and expenditure should be recorded in the same accounts from one period to the next. It also means that the accrual principle should be consistently applied: it would be incorrect to accrue certain expenditures in one period and recognize them on a cash basis in the next.

DBE will prepare annual financial statements for Component 1 and submit to the external auditors in the same schedule, within 60 days after the end of fiscal year.

5.15 Internal Auditing

Internal audit function includes the following main activities:

- Examining the effectiveness and efficiency of operations;
- Ascertaining the reliability and integrity of financial and operational information;

- Confirming the safeguarding of assets;
- Verifying compliance with laws, regulations and contracts; and
- Assisting in the rectification of irregularities noted in the external audit reports

The Internal Audit Directorate of the FeSMMIDA will assist the SMEFP in reviewing its activities by including the project in their annual work plans. Quarterly internal audit reports will be submitted to FeSMMIDA within 30 days of the end of the quarter.

The PIU shall take immediate action to rectify irregularities noted in the internal audit reports and inform FeSMMIDA.

DBE's internal audit unit regularly reviews the transactions of Bank financed operations. The same approach will be adopted for SME Finance Project as well.

5.16 External Auditing Requirements

In accordance with the financing agreement the project must prepare and present audited annual financial statements and the final audit report. These documents should be submitted upon completion of the audit, but not later than six months after the end of each fiscal year.

The audit of the project's financial statements will be conducted: a) by independent private auditors acceptable to IDA, on terms of reference acceptable to IDA, and procured by the PIU (for both DBE and FeSMMIDA), and 2) according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC).

The PIU Coordinator in FeSMMIDA is responsible for preparation of annual financial statements for Component 2, 3 and 4 of the project and ensuring timely completion of audit report. The PMT Coordinator in DBE is responsible for preparation of annual financial statements for Component 1. External auditors are to provide their opinion on the each of the financial statements to be presented to them by FeSMMIDA and DBE. Therefore, two audited financial statements will be presented to the World Bank.

The annual audited project consolidated financial statements will be provided to the World Bank within six months of the end of each fiscal year (July 7 of each year) and also at the closing of the project. The projects consolidated financial statements shall be based on the quarterly Interim Un-Audited Interim Financial Reports (IFRs).

The cost of the audit will be financed from the proceeds of Credit. The PIU in FeSMMIDA will pay the audit fees for both DBE and FeSMMIDA.

An audit of financial statements at a minimum would include:

- (a) an assessment of the adequacy of accounting and internal control systems to monitor expenditures and other financial transactions and ensure safeguarding project-financed assets;
- (b) determination whether implementing entities have maintained adequate documentation of all relevant transactions; and verification that expenditures submitted to the World Bank are eligible for financing under the project, and identification of any ineligible expenditures.

Detail scope of the audit is outlined on the audit terms of reference. It is highly desirable that the auditor become familiar with the relevant World Bank guidelines, which explain the Bank's financial reporting and auditing requirements.

5.16.1 The Audit Report

The audit report must contain a clear written expression of opinion on the financial statements. This opinion will be submitted both to the government (mainly the PIU at FeSMMIDA and the PMT at DBE) which will be shared to the World Bank.

5.16.2 The Management Letter

The World Bank also requires the auditors to prepare a management letter. This letter must highlight all the identified weaknesses and deficiencies in the internal control systems of the PIU/FeSMMIDA and DBE, and make suggestions for improvements. A copy of the management letter must be provided to the World Bank, as a part of the submission of the audit reports. The management letter should record comments or response of the implementing agencies management on the issues rose in the management letter. A status of implementation of recommendations contained in the management letter will also be submitted to the World Bank.

The auditor selection process shall be in accordance with the World Bank guidelines for consultant selection. For the recruitment of the auditor the PIU at FeSMMIDA should request in writing the Office of the Federal Auditor General (OFAG) the list of acceptable audit firms to the Bank. Details of the successful proposal must be sent, for review and No Objection, to World Bank

Detailed TOR for External Auditor is attached to this manual as an Annex 5.16.

VI. MONITORING AND EVALUATION

6.1 Introduction

The monitoring and evaluation (M&E) system of SMEFP will be based on the Results Framework and will be used to track and monitor progress and impact. The M&E system is also used to measure project activities. SMEFP M&E system has the general purpose of providing relevant information to all key stakeholders on the implementation progress with specific goals of:

- Supporting the project key stakeholders in effective decision-making by collecting, analyzing and communicating reliable and timely M&E information on all aspects and components of the project;
- Undertaking routine and periodic measurement and observation of the inputs, activities and outputs of SMEFP implementation;
- Keeping track of the daily activities of the project on a continuous basis and identifying any shortcomings with regard to delivery of inputs, execution of activities and achievement of outputs as early as possible.;
- Establishing rapid problem identification as well as an internal and external reporting system among the stakeholders;
- Promoting importance, the need for systematic data collection and utilization of M&E results by the stakeholders;
- Ensuring systematic provision of basic management information essential for coordination and control of implementation decisions, to permit effective use of financial and other project resources;
- Enabling project management and other project stakeholders undertake timely corrective action and/or make needed adjustments to implementation processes, techniques and approaches;
- Empowering and building the staff capacities of implementing organizations to guide, manage, implement, and monitor development activities effectively and efficiently;
- Ensuring accountability of implementing agencies in project delivery, in terms of budgets, expenditures, actions, outputs and results; and
- Providing objective evidence on project results, in terms of outputs and outcomes to permit lessons to be learned towards planning future investments and development initiatives.

6.2 Monitoring and Evaluation Functions

Monitoring and Evaluation of SMEFP shall have the following functions:

- Translate PDO into operational plans and coordinate the preparation of annual work plans with quarterly breakdowns for implementation of the project;

- Conduct regular monitoring and evaluation of the project activities at components level;
- Collect and analyze the project data from implementers;
- Carry out trends assessment, identify weaknesses in implementation of plans and guide the project team to take corrective action in order to bring operational effectiveness to the project; and
- Prepare interim, quarter and annual reports to the management, government and the World Bank on the progress of the project.

6.3 Roles and Responsibilities of Implementers in Monitoring and Evaluation

Project Steering Committee (PSC) is the highest organ to oversee and guide the project under overall implementation responsibility of Federal Small and Medium Manufacturing Industries Development Agency and Development Bank of Ethiopia.

6.3.1 Project Implementation Unit and Project Management Team

Project Management Team in DBE will be responsible for implementing, monitoring and evaluating, and reporting component 1 while Project Implementation Unit within the FeSMMIDA will be responsible for components 2, 3, and 4. PIU and PMT shall monitor daily routine duties and responsibilities for effective and efficient project implementation. The major responsibilities of PIU and PMT in monitoring SMEFP activities under their respective components include:

- Preparing and adopting standardized data collection and reporting formats to be used for quantitative and qualitative part of the project.
- Initiating the design of surveys required to track performance and results during the start-up phase;
- Monitor the baseline survey studies that would be conducted by a consultant;
- Developing an outcome-oriented approach that would allow corrections during implementation to achieve the objectives and efficient incorporation of lessons learned;
- Tracking the performance of project environmental and social safeguards activities as per Environmental and Social Management Framework (ESMF);
- Preparing all periodic reporting requirements including progress of different activities in the annual work plan, key performance indicators, financial reports and annual audits, procurement and any administrative matter;
- Coordinating timely preparation, processing and approval of annual work plan and budget (AWPB), and follow up the implementation;
- Organize and conduct stakeholder meetings, workshops and seminars to monitor and evaluate project progress;

- Prepare self-assessment project Implementation Completion Report (ICR) of SMEFP prior the Bank's Implementation Completion Report;
- Facilitate project terminal review; and actively participate in the ICR.

6.3.2 The Regional Small and Medium Manufacturing Industries Development Agencies (ReSMMIDAs)

The key role of Regional Small and Medium Manufacturing Industries Development Agencies in collecting and reporting M&E data will be as follows:

- Assign direct responsibility for M&E activities of the project to staff with adequate competencies to ensure the fulfillment of all reporting requirements;
- Conduct routine and day to day monitoring of the project activities;
- Collect basic baseline data about members using registration forms
- Facilitate field visit to SMEs to collect data on new employments, market linkages, technology adoption and growth in their businesses;
- Prepare and submit monthly, quarterly, and annual reports on time for review by PIU in Federal Small and Medium Manufacturing Industries Development Agency;
- Allow access to documented files for on-site supervision and data verification by SMEFP team and the World Bank mission;
- Conduct periodic monitoring and evaluation of the performance of the SMEs and gather output and outcome data required for M&E,
- Maintain and share proper records of all applicants where all data and information can be retrieved for reporting and M&E purposes.
- Facilitate collection of data for baseline, mid-term, and end line project surveys, and on-site supervisions by the project and/or the World Bank implementation support or technical mission team.

6.3.3 Participating Financial Institutions (PFIs)

Major roles and responsibilities PFIs with regard to monitoring and evaluation include the following:

- Keep SME sub-credits funds under the project separate and distinct from the rest of the credit portfolios.
- Maintain a financial management system and prepare financial statements, both in a manner adequate to reflect the operations, resources and expenditures related to the sub-project.
- Commit to detailed reporting standards as a prerequisite for participating in the SME line of credit.
- Assign direct responsibility for monitoring and evaluation tasks to staff with adequate competencies to ensure the fulfillment of all reporting requirements.

- Collect basic information on SME clients and potential clients; undertake clients registration and open a SMEFP members file using Membership Identification Numbers issued;
- Collect feedback from participants through feedback forms, and analyze and communicate results/findings.
- Prepare and submit monthly reports on results indicators to DBE.
- Prepare and submit quarterly reports to DBE on their performance using the quarterly reporting format.
- Obtain and retain information from each sub-borrower and make it available for DBE supervision and project audits.
- Prepare a quarterly summary report that comprise a list with the name of the sub-borrowers, the amount given as sub-credit to the sub-borrower, the amount spent by the sub-borrower, the balance left unspent, and the nature of expenditure incurred by the sub-borrowers, and submit to DBE.
- Allow the PMT of DBE and the World Bank, during loan supervision, have access to their books of accounts, upon reasonable notice, to do ex-post review of the portfolio under the loan.
- Allow independent auditors have access to their books of accounts for auditing and compliance checks.
- Build the capacity of staff assigned for the project to collect, aggregate, and report data, and conduct supportive supervision to SMEs.
- Provide DBE with a set of documentation for all sub-credits, in order to enable DBE to maintain all project records and make them available for ex-post review by the World Bank or by external auditors as necessary.
- Cooperate, as needed, with the Bank and the MoFEC to inspect any sub-project, its operation and any relevant records and documents.

6.3.4 Business Development Services Providers

- Commit to detailed reporting standards as a prerequisite for participating in the SME business development services;
- Collect basic information on SME clients of BDS and potential clients; undertake clients registration and open a SMEFP members file using Membership Identification Numbers issued;
- Collect feedback from participants and analyze and communicate results/findings with PIU;
- Prepare and submit monthly reports on results indicators of BDS to PIU (FeSMMIDA);
- Prepare and submit quarterly reports to PIU (FeSMMIDA) on their performance using the quarterly reporting format;

SMEFP clients' registration and ID process along with clients' registration form for lease/loan and clients' registration form for BDS is attached as Annex 6.5

6.4 The SMEFP M&E System

The implementation of the SMEFP M&E system will ensure that timely data is collected to inform project activities, and that all data necessary for the reporting on the results indicators is collected (Annex 6.1, Results Framework and Monitoring). In addition to the indicators in the results framework, the SMEFP M&E system will monitor the additional indicators listed in Annex 6.2 for analytical purposes. The responsibility for reporting will mainly rest with the PIU, PMT/DBE and PFIs.

6.4.1 Conceptual Framework

The SMEFP M&E system is guided by the following conceptual framework of M&E. Both monitoring and evaluation are interrelated but distinct concepts.

Monitoring is a regular collection and analysis of information to assist timely decision-making, ensure accountability and provide the basis for evaluation and learning. It helps continual self-evaluation. It is the process of continuously collecting information about the progress of the project. Collecting the information is a normal part of day-to-day work. The purpose of doing this is helping to decide whether activities are being implemented as planned. The information is then used to make decisions about improving the management and implementation of the project.

Evaluation is a systematic examination of planned, on-going or completed activities of the project. It aims to answer specific management questions and to judge the worthiness of an endeavor and supply lessons learned to improve future actions, planning and decision-making.

Evaluation in its broadest sense tells us that “to assess or judge the worth or value of the project's outcome”. Furthermore, in the project context it is a process to measure the outcomes, impacts and effectiveness of a project in order to use lessons learned. We do this by determining the achievement of goals and objectives.

Project evaluations are separately scheduled activities performed at specific intervals. For example, in the middle of the implementation period this is known as *mid-term evaluation*. The other one is *terminal evaluation* which is conducted at the end of the project. Both the Mid-term and terminal evaluations are conducted by external bodies or financiers of the project. However, the internal evaluations of the project are performed by project staff and the implementing body at any time convenient for the project

management. Key elements of monitoring and evaluation are summarized in Table 6.1 below in order to frame the M&E system of SMEFP.

Table 6.1: Comparison of Monitoring and Evaluation of SMEFP

Issues/ questions	Monitoring	Evaluation
What	Monitoring is the process of routinely gathering data/information on all SMEFP result indicators. Basically for the use of project management decision.	Evaluation is an assessment to value results achieved due to the SMEFP’s intervention, as systematic & objective as possible, to gain a deeper perspective on what results and impacts have been achieved. It informs major decision-making.
Purpose	<ul style="list-style-type: none"> • Analyze the input utilized and outputs delivered at all levels, • Identify problems encountered while the project is ongoing and recommend solutions, • Discover trends and patterns due to the intervention of SMEFP, • Keep project activities on schedule as planned, • Based on data/information gathered measure progress towards intermediate goals and propose revision action in order to achieve the goals set, • Formulate key questions for monitoring at all SMEFP implementation levels, • Make decisions on the proper utilization of project’s resources. 	<ul style="list-style-type: none"> • SMEFP’s evaluation enables to determine how effective the project has been, • Determine the extent to which PDO have been achieved, • Learn how efficiently things are being done and relevant, • Draw & share lessons learned so that future projects of a similar nature can be improved.
When	Monitoring of the SMEFP is continuous (daily, monthly, bi-annual, annual). Monitoring activities should be scheduled as part of the project's work plan and be a routine part of project implementers.	As any IDA financed projects the SMEFP evaluation is conducted periodically: <ul style="list-style-type: none"> • At or near the mid-term of implementation • Terminal - at the end of a project • At a point well after a project has been completed (ex-post) to see the project’s impact. • PIU and PMT will conduct internal evaluation quarterly, bi-annually and annually.
How	Monitoring of SMEFP is carried out by staff of PIU, DBE, beneficiaries and stakeholders based on formal reports, field visits/observations, review of service delivery, meetings with stakeholders, conduct interviews, etc.	PIU and PMT will carry out internal evaluations by developing suitable terms of reference. Mid-term, Terminal and ex-post evaluations are conducted by financiers (WB/IDA) or independent consultants,
Why	Monitoring provides the project management team with information needed to analyze the current project performance/situation, identify problems and find solutions, discover trends and patterns, keep in schedule and measure progress towards expected outcomes.	Evaluation in the context to SMEFP is the formal process of documenting the project achievements: <ul style="list-style-type: none"> • Progress in the work plan (in line to physical, finance and procurement), • Establishment of project management system (Institutions, financial management, procurement, M&E, and other units/sections) • Implementation of planned activities • Achievement of results

Issues/ questions	Monitoring	Evaluation
		<ul style="list-style-type: none"> • Effectiveness of the project • Impact of the project • Efficiency or cost effectiveness & sustainability.
Information type	More emphasis on quantitative data collection, conduct comparisons against plans but some qualitative data are gathered to complement the quantitative analysis.	More emphasis on qualitative data but quantitative data is gathered in indicators. Qualitative analysis often supports the quantitative assessment.
Information Category	Based on the M&E Reporting Formats descriptive, analytical and documentary data should all be used to observe outputs and results/outcomes attained due to the project intervention.	Descriptive, analytical and documentary data should all be used to observe and record the ‘what’ and understand the ‘why’ of the project achievements.
How the result is used?	The result of monitoring of SMEFP is used to improve quality of implementation and adjust planning. Also serves as an input for evaluation.	To judge the impact on the target population and the spillovers; decide about the future of the Project.

A participatory monitoring and evaluation procedure should be introduced to regular review progress of activities to be implemented by the project on the basis of identified/developed indicators in order to meet the objectives of the system and resolve issues raised by evaluators for example during the Mid-Term Review. To this end, indicators have been identified and targets are set to allow monitoring and evaluation at different levels, i.e., at the activity, input, output, outcomes and impacts level (intermediate results and PDO).

Periodic review meetings will be among the procedures to be employed to monitor progress of the activities. Participants of such meetings include, among others, representatives of key partners/ stakeholders including project management key staffs possibly representatives of project implementers and SMEFP clients.

Project’s self-assessment evaluation shall also be conducted by the SMEFP staff before external body starts to conduct the terminal evaluation. The information analyzed during the project’s management self-assessment could be used by the external evaluators for validation purpose or data used as an input.

6.4.2 Major Features of SMEFP M&E System

SMEFP M&E system is an operational working guide & management tool for the whole project implementation processes (physical & financial), which recognizes the need to maintain an efficient, regular and user friendly information flow between all key stakeholders.

- It focuses on regular collection, analysis and communication of a mix of quantitative and qualitative information on all aspects and components of the project;
- It employs a bottom-up system of information collection and analysis with active participation of the target destinations. The system is designed to allow timely verification of data and identification of operational problems and improve performance and facilitate faster learning process;
- It will use a bottom up periodic (monthly, quarterly, and annual) reporting on input, output and result indicators;
- Data/information used to measure performance will be collected regularly by PMT and PIU staff at different times of the project period. The monitoring schedules will be entered directly into the system and will be adhered to by all. All data collected from regions and PFIs will be aggregated to form the SMEFP data base; and measure results using the indicators.

6.4.3 Monitoring of SMEFP

Monitoring refers to a routine checking of the day-to-day SMEFP activities to determine whether or not activities are being performed on schedule; resources are utilized effectively; and short-term targets for output are being achieved in accordance with project work plan. It involves routinely gathering of information on all aspects of the project, analysis and making decision to improve performance, ensure accountability and provide the basis for continuous learning and adjustment. Generally, monitoring of SMEFP is the process of collecting data/information on regular basis, analysing, summarizing, and communicating/reporting of project status using prior set indicators.

The following are key questions for an effective monitoring system:

- (a) Are we achieving what we intend? How? Why or Why not?
- (b) What are the obstacles to implementation?
- (c) Has the management of the project been adequate?
- (d) What are the strengths and limitations?
- (e) Were activities managed well?
- (f) Were resources expended according to plan?
- (g) Were intended target beneficiaries reached by the project?
- (h) Did key project implementers' coordination occur according to plan?
- (i) Was the timing and quality of the technical assistance adequate?
- (j) Are PIU and PMT coordinating effectively? and
- (k) What are the implementation gaps? How are we going to address them?

6.4.3.1 Input Monitoring (Progress Monitoring)

Input monitoring or process (activity) monitoring tracks the use of input and resources, the progress of activities for the delivery of output. It examines how activities are performed – the efficiency in time and resources. Moreover, it is concerned with use of staff, material resources and finance that are necessary to produce the intended output of the project.

Regularly, the input monitoring compares targets against actual performance. Regular reports (monthly, quarterly, bi-annual and annual reports) are main sources of data/information for the input monitoring. PMT and PIU staff are responsible for the input monitoring activities report as per the agreed reporting procedure. The M&E specialist is responsible whether the appropriate reporting formats have been issued and applied to all concerned partners and he/she is in charge to organize, collect information gathered from different sources, and organize relevant timely meetings/workshops to discuss on the project status. Formats for reporting are attached in this manual.

6.4.3.2 Output and Results Monitoring

Results monitoring tracks effects and impacts to determine if the project is on target towards its intended results (output, outcome, impact) and whether there may be any unintended impact (positive or negative).

Results monitoring enables assessment of what have been achieved as a result of the delivered output during the implementation of the project in terms of reaching the different stakeholders, partners and beneficiaries. Results monitoring will be carried out on the basis of identified and agreed on intermediate results indicators and the corresponding targets.

6.4.4 Evaluation of SMEFP

Evaluation is a process used to determine the effectiveness, efficiency, relevance, impact and sustainability of the project in the light of its stated objectives. It is an important process in identifying the major achievement or success of the project and bottlenecks that hindered the project not to move as it was planned.

It would be necessary to conduct internal evaluation at the project level periodically while the project is ongoing. See Table 6.2 below that shows the time for internal and external evaluations while the project is under implementation.

Table 6.2: Evaluation Schedule for SMEFP

What to Evaluate	Responsible body	When to evaluate					
		Yr1	Yr2	Yr3	Yr4	Yr5	Yr6
Internal evaluation	Implementing body (PIU and PMT)						
Mid-term review	External (the Bank or consultant)			⇒			
Terminal/end	External (the Bank or consultant)						⇒
Impact evaluation	External (EDRI/ World Bank)						

The evaluation should answers to the following key questions:-

- (i) What did we do & deliver?
- (ii) What did we achieve?
- (iii) Did we attain what we initially intended to achieve?
- (iv) What lessons drawn from this intervention?
- (v) Have we fully addressed the causes and effects of the problems of the target end users? If not, what are the gaps?
- (vi) What capacity the target groups develop in exploiting the economic potentials of their area?
- (vii) Who benefited from the project?
- (viii) What factors explain successes/failure and unintended results due to the project intervention, the impact?

Like monitoring of SMEFP, all the key stakeholders are involved in evaluation of the project. However, unlike the monitoring and internal evaluations, the mid-term review, terminal and post implementation evaluations will be carried out by external evaluators for the purpose of avoiding bias, conflict of interest, and for ensuring objectivity and transparency.

During the process of evaluation of SMEFP, the PMT and PIU together with the evaluator should establish a procedure to keep the project team informed of the progress and findings during the evaluation. Two major external evaluation periods are the mid-term and final evaluations:-

a) Mid-Term Review

The MTR offers a good opportunity for the project management, the Government and stakeholders in identifying shortcomings. MTR is very essential in refining the ways in which the project was implemented, and proposals in improving the future project’s focus, pace of implementation, and disbursement performance.

b) Terminal evaluation

Terminal Evaluation will be conducted by external body when the project ends, which assesses the overall performance of the project in terms of relevance, effectiveness, efficiency, impact and sustainability. Lessons learned and experiences drawn from implementation of the project; information generated from project monitoring and review reports, baseline studies and mid-term evaluation will make important input for terminal evaluation of the project.

In general, the final evaluation reviews the sustainability of the project after IDA's financing ends and proposes SMEFP's exit strategy to enable mainstream the project long term objectives with the regular government planning & implementation system.

c) Impact Evaluation

The impact evaluation component of SMEFP, funded through an external trust fund, will focus on innovation and measurement with the beneficiaries of loans, leases and business development services. The project's impact evaluation will support rigorous empirical analysis based on a quantitative comparison of a treatment and control groups before and after access to specific project interventions. The impact evaluation will be operated and managed by a World Bank research team.

Empirical analysis will typically build on survey data deliberately collected for this purpose: (1) a base-line survey which will be carried out prior to respondents' exposure to any relevant intervention activities; (2) a mid-line survey during project implementation; and (3) an end-line survey which will be administered after the project has been well into operation. The information will be collected from representatives of both the treatment group as well as the control group. The main focus of the survey questionnaires will be on standard business performance measures such as sales, profit, investment and employment, with the aim of measuring the impact of the program on enterprise growth over time.

The impact evaluation will also aim to capture heterogeneous impacts across various groups of participants, especially between female and male entrepreneurs, examining differential impacts of access to loans, leases, and business development services for the growth of male and female-owned enterprises. During the design phase, the team will put emphasis on identifying and evaluating interventions that aim at tackling gender-specific constraints, particularly those that represent obstacles to the growth of female owned business and entrepreneurs. Additionally, analysis will examine differential impacts for younger and older firms, and firms of various sizes and sub-sectors.

The impact evaluation will involve a long-term research partnership between the World Bank and the Ethiopian Development Research Institute (EDRI). In addition to measuring results of project activities, the impact evaluation will involve testing innovative new pilots and rigorously measuring their impact.

6.4.5 SMEFP Monitoring and Evaluation Plan

Monitoring and Evaluation Plan is prepared for ensuring real progress towards achievement of project results and its development objectives within the time frame, allocated resources and quality of the output.

SMEFP M&E Plan identifies indicators for various levels of results, data collection methods, frequency of data collection and reporting, and responsible bodies. It guides the planning process for data collection, analysis and use for measuring the progress of the project. Table 6.3 below shows data collection, analysis and use built in SMEFP results framework.

Table 6.3: SMEFP M&E Planning Worksheet

Project Development objectives (PDO): To increase access to finance for eligible SMEs in Ethiopia															
Result Indicators	Baseline data needed	DATA COLLECTION										DATA ANALYSIS AND USE			
		<i>Cumulative Target Values</i>						<i>Source of Information</i>	<i>Data collection Tools/ Methods</i>	<i>Frequency</i>	<i>Responsibility</i>	<i>Frequency</i>	<i>Responsibility</i>	<i>How information is to be used</i>	<i>Dissemination (who)</i>
		<i>Yr1</i>	<i>Yr2</i>	<i>Yr3</i>	<i>Yr4</i>	<i>Yr5</i>	<i>Yr6</i>								
PDO Level Results Indicators															
1. Volume of Bank Support: Lines of Credit - SME.	0	0	US\$ 25	US\$ 75	US\$ 155	US\$ 220	US\$ 269	DBE, Participating Commercial Banks and Microfinance institutions, SMEFP clients, stakeholders	Reports	Monthly, Quarterly, Annual	PMT/ DBE	Monthly, Quarterly, Annual	PMT/ DBE	Analyze quantitative data collected from reports	PMT/ DBE
2. Number of SMEs Reached with Financial Services	0	0	200	600	1240	1760	2152	DBE, Participating Commercial Banks and Microfinance institutions, SMEFP clients, stakeholders	Reports	Monthly, Quarterly, Annual	PMT/ DBE	Monthly, Quarterly, Annual	PMT/ DBE	Analyze quantitative data collected from reports	PMT/ DBE
3. Portfolio at Risk - SME	n/a	n/a	<8%	<8%	<5%	<5%	<5%	DBE, Participating Commercial Banks and Microfinance institutions	Reports	Annual	PMT/ DBE	Annual	PMT/ DBE	Analyze quantitative data collected from reports	PMT/ DBE

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Project Development objectives (PDO): To increase access to finance for eligible SMEs in Ethiopia															
Result Indicators	Baseline data needed	DATA COLLECTION										DATA ANALYSIS AND USE			
		Cumulative Target Values						Source of Information	Data collection Tools/ Methods	Frequency	Responsibility	Frequency	Responsibility	How information is to be used	Dissemination (who)
		Yr1	Yr2	Yr3	Yr4	Yr5	Yr6								
Intermediate Results Indicators															
1. Number of Loans/ Leases disbursed to SMEs	0	0	360	1080	2232	3168	3873	DBE, Participating Commercial Banks and Microfinance institutions	Reports	Monthly, Quarterly, Annual	PMT/ DBE	Monthly, Quarterly, Annual	PMT/ DBE	Analyze quantitative data collected from reports	PMT/ DBE
2. Collateral Registry Established	No	No	No	Yes	Yes	Yes	Yes	NBE	Reports and field visits	Annual	PIU/ FeSMMI DA	Annual	PIU/ FeSMMI DA	Analyze qualitative information collected from reports	PIU/ FeSMMIDA
3. Insolvency Diagnostic Completed	No	No	No	Yes	Yes	Yes	Yes	NBE	Reports and field visits	Annual	PIU/ FeSMMI DA	Annual	PIU/ FeSMMI DA	Analyze qualitative information collected from reports	PIU/ FeSMMIDA
4. Number of SMEs that received training through a BDS Program	No	0	100	300	500	700	912	FeSMMIDA and BDS Service Providers	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMI DA	Monthly, Quarterly, Annual	PIU/ FeSMMI DA	Analyze qualitative information collected from reports	PIU/ FeSMMIDA
5. Report drafted on citizen engagement survey	No	No	No	No	Yes	Yes	Yes	FeSMMIDA and BDS Service Providers	Reports	Annual	PIU/ FeSMMI DA	Annual	PIU/ FeSMMI DA	Analyze qualitative information collected from reports	PIU/ FeSMMIDA

6.4.6 Activity Planning

The PIU will coordinate the planning, implementation and reporting of all project activities. Project activities in the 6-year budget will be programmed into annual work plan and budget. Then quarterly work plan and budget will be prepared. Detailed monthly activity planning will be the basis for implementation monitoring and reporting on monthly basis.

The project team is responsible to prepare the list of sub tasks for detail activity planning for each contract of the project. A template for planning sub-tasks of goods, works and consultants categories of the project is attached as Annex 6.3. The action plan for each contract needs be developed and agreed up on with winning contractor/consultant of each contract so as to employ supervision and monitoring the implementation of the contract.

Detailed timing of tasks, sub-tasks and activities under each component will be prepared at the beginning of each year and updated regularly.

6.4.7 Activity Implementation

The project activities are implemented by PIU/FeSMMIDA and PMT/DBE respective to their responsibilities of component implementation and when the technical expertise lack to conduct an activity, expertise and consultants' input will be engaged to assist in activity implementation or produce specific output. The project will actively seek and encourage cooperation, technical assistance and implementation support from the World Bank.

6.5 Management Information System of SMEFP

This Section clarifies the data/ information needs; and how the data are to be managed and reported to management to assist in monitoring and controlling the project performance and responsibilities, resources and results/ output which will form the basis for assessment of impacts of the project.

There are two sets of data/ information: (i) Data related to input delivery that is financial/budget, human and material resources required to carry out the intended project activities. This data will be needed to track and assess the project performance; (ii) Data related to development aspects of the project such as output/results and impacts with the corresponding indicators.

A central project database will be utilized to store all information on SMEFP clients by ID number, including registration data, access to financial products and Business Development Services (BDS). The project team will explore the possibility of housing the central project database electronically, with a web portal to enable all project partners to access the M&E system. To the extent possible, the SMEFP will aim to build on existing government databases, with the support of an IT consultancy firm to modify and upgrade systems as needed.

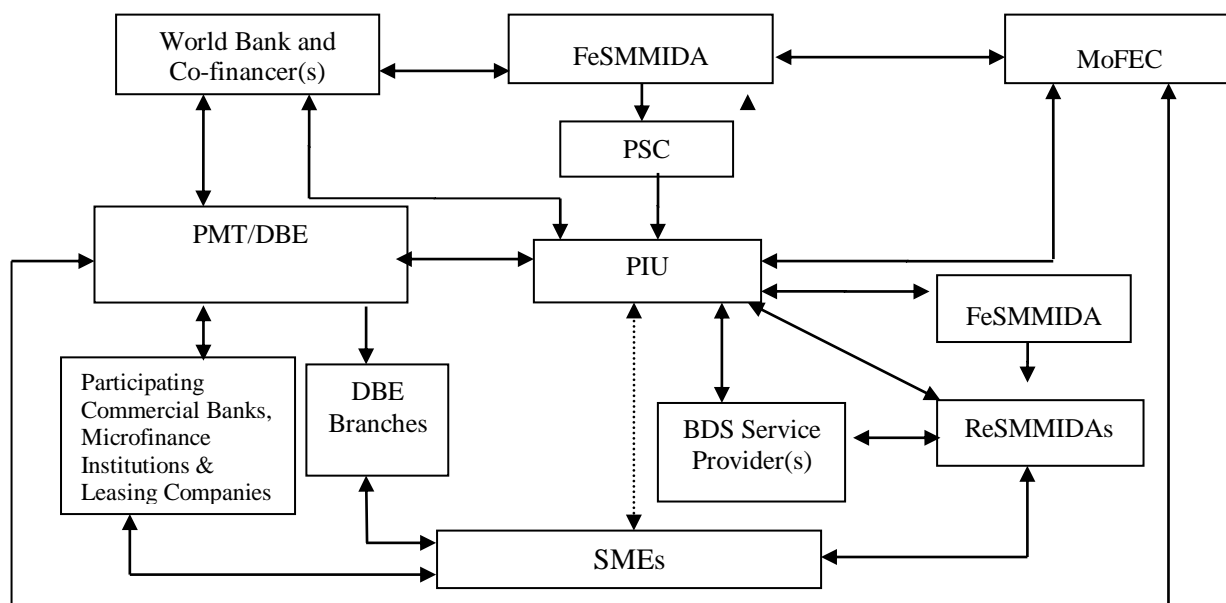
6.5.1 SMEFP Data Source

Project data will be drawn basically from four major sources: membership registration, implementing agency reports, financial institution reports and impact evaluation surveys.

- i. *Membership registration.* Membership registration will be done at the program entry point for all participants, and the registration form will capture basic information from entrepreneurs and their enterprises. The registration form also will include information on business characteristics such as business sector and sub-sector, age of business, start-up capital, previous credit history, annual earnings, and number of employees, as well as on characteristics of the entrepreneur, such as age, education level, and experience. Each registrant will receive an ID card with automatically generated unique ID number, and the information on registered client will be stored by ID number in a central project database, accessible online to all implementers. This baseline data will help to inform the analysis of beneficiaries' performance and will additionally qualify its findings. The unique, 10-digit membership number will serve as the central individual identifier that will enable the establishment of linkages between different data sources.
- ii. *Implementing agency reports.* In order to leverage pre-existing structures and institutions, the PMT will be responsible for establishing, managing and reporting the M&E system for component 1. The PIU within the FeSMMIDA will be responsible for establishing and managing the M&E system for components 2, 3, and 4. This will include data collection, compilation and reporting from relevant stakeholders and implementing agencies for components 2, 3 and 4. Both the PMT and PIU will provide quarterly and annual progress reports.
- iii. *Financial Institution reports.* All financial institutions tapping the line of credit offered by SMEFP are required to fulfill a number of reporting requirements which will provide a wealth of information to the project. Each financial institution and leasing company should report on every loan or lease product disbursed, including the amount, date of the agreement with borrower, business sector of borrower, name of borrower, and ID number of borrower. These reports will be compiled by the PMT in DBE on a monthly basis.
- iv. *Impact evaluation surveys.* The impact evaluation will largely build on a panel data set containing information on individuals in the treatment and control group. The impact evaluation sample will be a random sub-set drawn from the project's registration data. Conditional on sufficient implementation, the baseline and end line data collection will be complemented by a midterm survey. The survey tools will be designed to capture extensive information on the entrepreneurial/business activities of respondents. The impact analysis will be able to measure the project's effectiveness on indicators for standard business performance, such as income and employment. The impact evaluation will also contain qualitative studies of a range of issues to provide evidence on the results of the program.

The information flow of the SMEFP among project implementers, beneficiaries, and other stakeholders is shown in figure 6.1 below.

Figure 6.1: Data/ Information Flow in SMEFP Project M&E System



Legend
 Direct relationship →
 Work relationship ↔
 Indirect relationship

6.5.2 SMEFP Reports

The SMEFP monitoring and evaluation system includes reporting of project progress on monthly, quarterly, biannual and annual reports as well as non-routine reports that include mid-term review report, survey/analytical report and project completion report. Reports are prepared on regular basis as well as upon completion of each project activity. The reports of Regional SME Development Agencies, BDS providers and specialists will be consolidated by the M&E Specialist into quarterly and annual reports that will be submitted to Project Steering Committee, MoFEC and the World Bank.

The integrated M&E system in FeSMMIDA will produce monthly, quarterly and annual reports on key activities and results of members’ registration, loan/lease and business development services provided to the clients. However, narrative report about performance of planned activities should be prepared to better inform the project management and other stakeholders. Accordingly, DBE branches that provide SME finance products, participating commercial banks, micro finance institutions and leasing companies will submit monthly reports to PMT and DBE will consolidate loan reports submitted to the World Bank and PIU on monthly basis. DBE also prepares and submits Interim Financial Report (IFR) to the World Bank on quarterly basis. Monthly reports of registration and BDS report on delivery time should be received and consolidated by M&E Specialist for PIU management purpose. PIU prepares quarterly and annual reports on overall project progress and submit to the World Bank, Project Steering Committee and MoFEC. Similarly, quarterly financial reports (Interim Financial Report) and annual audit reports are submitted to the World Bank, Project Steering Committee and MoFEC.

i. Quarterly Project Progress Reports

The quarterly report is expected in quantitative and qualitative form, the narrative parts of the progress reports should provide information on:

- Work plan for the period and activities completed by the main components of the project;
- Financial progress - in terms of commitments, payments and disbursements from IDA financing and co-financing;
- Physical progress in terms of physical performance indicators and targets;
- Work plan and related budgets for the next two quarters; and
- Problems/ constraints experienced and management action exercised.

ii. Annual project progress reports

The quarterly progress reports will be consolidated to form the annual project progress reports; and will have similar contents as the quarterly progress reports. The financial report component of the annual progress report contains Audited Project Financial Statements to be submitted to the IDA.

The financial report will include statement of sources and utilization of funds, indicating funds of IDA and any other source and project expenditures with appropriate schedules classifying project expenditures by component, showing yearly and cumulative balances and Special Account reconciliation statement.

Table 6.4: The Reports Required from SMEFP

Whom the report is submitted to: Who prepares the report	PMT/ DBE	PIU	PSC	World Bank	MoFEC
DBE branches, participating commercial banks, MFIs and leasing companies	Monthly Loan Report				
ReSMMIDA		Monthly progress report			
BDS Provider(s)		BDS report when the service rendered			
PMT/DBE		Monthly SMEFP Loan Report		<ul style="list-style-type: none"> •Monthly SMEFP Loan Report •Quarterly IFR 	
PIU		Monthly Project Progress Report for internal management use	<ul style="list-style-type: none"> • Quarterly progress report ; • Biannual/ Annual progress report; • Annual financial audit 	<ul style="list-style-type: none"> • Quarterly progress report ; • Biannual/Annual progress report; • Annual financial audit 	<ul style="list-style-type: none"> • Quarterly progress report ; • Quarterly IFR • Biannual/Annual progress report • Annual financial audit

VII ANNEXES

Annex 1.1: Description of Project Components**Component 1: Financial Services to SMEs (US\$269 million, out of which US\$76 million from EIB).**

This component aims to provide participating financial intermediaries with a line of credit facility for the provision of leasing and working capital to eligible small and medium enterprises (SMEs). This liquidity support will be complemented with mandatory technical assistance aimed at supporting participating financial institutions (PFIs) in designing, piloting, and rolling out financial products utilizing novel lending methodologies (i.e. cash flow based lending) to successfully expand their outreach to the target SMEs. The technical assistance support will be provided externally by development partners.

The Development Bank of Ethiopia will provide both direct financing to SMEs and wholesale finance to other financial intermediaries for on-lending to SMEs. More specifically, the DBE will in parallel serve as: i) direct lender of lease finance to SMEs through its regional branch network; ii) wholesaler of finance to participating lease companies for provision of lease finance to SMEs; and iii) wholesaler for commercial banks and MFIs focused on provision of working capital finance to SMEs. It will do so through two main financing windows:

- **Window 1: *Lease finance to SMEs.*** This window will provide a line of credit to strengthen DBE's capacity to provide lease finance to SMEs both directly through its regional branches and indirectly through the licensed and eligible lease companies operating in the country. DBE, as a retailer through its regional branches, will provide lease financing directly for amounts greater than ETB 1 million and indirectly to eligible lease companies for amounts less than ETB 1 million. Tailored and compulsory technical assistance will be provided to DBE branches and to the participating lease companies (see TA facility below) on how to properly address SMEs' needs in the regions where they operate, as well as enhancing their skills on risk management, product design, management information systems (MIS), funding strategy, and other needs as appropriate.
- **Window 2: *SME lending.*** This window will provide a wholesale line of credit from DBE to eligible commercial banks and MFIs for on-lending of working capital finance to SMEs. Similar to the leasing window, a tailored and compulsory technical assistance (see TA facility below) will be provided to commercial banks and MFIs on how to reengineer their business models so that they can lend to SMEs in a sustainable fashion.

A Technical Assistance (TA) facility (funded externally through development partners) will be established to complement and reinforce project implementation. A critical success factor and a key goal of the project are to build the institutional and human resource capacity of DBE and of the PFIs to effectively serve the SME market. The TA Facility will be closely coordinated with the Credit Facility. The DFID-funded PEPE project will be responsible for funding and managing the TA facility, under the technical supervision of the World Bank team.

In order to make the credit facility effective, PFIs will receive a mandatory, specific, high-quality, technical assistance. This will be delivered through a combination of specialized trainings and the presence of resident technical advisors with proven relevant international experience to help build capacity in financial services to SMEs. This capacity building will enable PFI officials and staff to serve SMEs adequately - training them in assessing SME business proposals and developing suitable financial products and lending methodologies for the target group.

In order to have access to the Credit Facility PFIs will be required to enter into technical cooperation agreements (TCA) with the PMT in DBE and with PEPE. Under such agreements, PFIs will receive TA free of charge for a period deemed appropriate after the initial gap assessment for building the necessary capacity to undertake the project's assignment.

Annex 1.1: Description of Project Components (cont'd)**Component 2: Enabling environment for SME Finance (US\$0.8 million).**

The second component aims at improving the enabling environment for facilitating SME finance in Ethiopia which will be closely coordinated with the technical assistance that will be provided in the area of financial sector infrastructure by Ethiopia Financial Inclusion Support Framework (FISF) and Multi Donor Initiative (MDI), both managed by the WBG. This would require the following:

- creation of a **collateral registry** that would support both the banking and the leasing business;
- a review of the **insolvency and creditor/debtor regime** to address key bottlenecks to SME lending

The project will support the hardware and associated software, licenses, capacity building and training for a centralized electronic collateral registry. Collateral registries for movable assets, which are part of the broader secured transactions systems which consists of four components: (i) secured transactions law, applicable to all creditors and borrowers, (ii) design and implementation of a centralized on-line collateral registry; (iii) public awareness and capacity building efforts; and (iv) monitoring and impact measurement of the project and, fulfill two key functions: notify parties about the existence of a security interest in movable property (of existing liens) and establish the priority of creditors vis -a- vis third parties. In Ethiopia, it has been identified that a collateral registry is one of the key areas of development for improving Ethiopia's financial infrastructure, thereby facilitating access to finance, especially for the SME sector. This registry is expected to be: (i) the only place where security interests over movables are registered following necessary legal reforms; (ii) cost-efficient (iii) designed as a notice-filing system; and (iv) accessible exclusively by electronic means.

The main purpose of the diagnostic review on insolvency and credit/debtor regime is to analyze and identify the areas for improvement in the country's insolvency and credit/debtor systems. Insolvency systems provide a pre-determined set of rules and institutions concerned with the recognition of insolvency, the resultant liquidation or rehabilitation of the insolvent firm, and the allocation of the financial consequences between the stakeholders. They also permit lenders to more accurately price risk and encourage cash flow lending, rather than relationship or directed lending, and disciplines managers to allocate scarce resources efficiently. The assessment is designed to assess and compare a country's institutional practices against the internationally recognized best practices and, if needed, provide recommendations for improvement in a prioritized methodology. The methodology of the diagnostic is based upon a pluralistic approach, which examines whether the goals of an efficient system are met and not how those goals are achieved.

These activities complement ongoing technical assistance which is funded through other development partners. The recent G20 Investment and Infrastructure Working Group (IIWG) and the G20 GPFI SME Finance Sub-group calls for a joint action plan on financial infrastructure reform. The priority reform measures include improvements of the credit reporting framework for SMEs, as well as reforms that allow banks and non-banks to lend to SMEs against movable collateral. In light of this initiative, the WBG has already laid out some work on the credit reporting framework and collateral registry in Ethiopia under its Multi Donor Initiative (MDI) and Financial Inclusion Support Framework (FISF) programs.

Annex 1.1: Description of Project Components (cont'd)**Component 3: Business Development Services to SMEs (US\$2.5 million)**

The objective of this component is to make SMEs bankable through the provision of tailored Business Development Services (BDS). BDS support to SMEs can address (but is not limited to) the lack of capacity to develop bankable business plans, the poor quality of financial statements and records, the inability to manage risk, the lack of knowledge of business development and management, the lack of adequate collateral, etc. The main objective of the provision of BDS will be to make SMEs more bankable. Eligible SMEs will be those with a minimum of 6 and a maximum of 100 employees. 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. A consulting firm would be identified through an international competitive bidding process to carry out an assessment of the specific needs of the target SMEs, and support the PIU in developing the Terms of Reference and criteria for the selection of BDS providers. It is anticipated that high caliber local BDS providers will then provide a tailored menu of trainings and mentorship to the SMEs.

In addition to the standard BDS, the project will also aim at providing highly specialized services to growth-oriented SMEs capable to become suppliers for global value chains. In particular, this set of services will link the local producers to international markets through global value chains, product development management and compliance with international market standards. Moreover it will focus on quality assurance processes and management information systems (e.g. software that could help SMEs manage their production cycle in a more systematic and efficient manner). While the project cannot provide software to SMEs, it supports to explore the possibility of conducting a needs assessment, to find the gaps in the existing software that the SMEs are using, and to introduce some existing solutions that the SMEs could acquire on their own in case of their interests and needs. As these proposed advisory services are more of a specialized technical nature and do not fall within the scope of a standard business training package, these would be provided directly to SMEs by an internationally-selected firm, with expertise in these technical areas. This specialized activity is expected to be coordinated under this project but financed through external/ donors grant funding.

The component would seek to coordinate with other existing support services for SMEs. This will include providers such as the Entrepreneurship Development Centre, sectoral institutes, and development partners supported programs. This would enable leveraging existing initiatives to set up a referral system so that eligible SMEs benefiting from the BDS services can be integrated with this project and be exposed (although not automatically entitled) to the access to finance opportunities under component 1. In addition, the project would capitalize on synergies with the Competitiveness and Job Creation (CJC) Project financed by the World Bank Group, which focuses on creating linkages between SMEs and FDIs operating in the targeted industrial Parks. This would enable building on the CJC's strong technical support for SMEs and complement it by support on business development and financing under the SMEFP.

Annex 1.1: Description of Project Components (cont'd)**Component 4: Project management, communication and impact evaluation (US\$3.7 million)**

The objective of this component is to support overall coordination of project activities, and to rigorously measure the impact of the project on the growth of participating SMEs. The two main implementers of the project are the Development Bank of Ethiopia and the Federal Small and Medium Manufacturing Industries Development Agency. A Project Management Team will be established in DBE with direct responsibility of managing the credit facility under component 1. A Project Implementation Unit will be established in FeSMMIDA with the mandate of overall project's coordination and direct responsibility of component 2, 3 and 4. NBE will assign a focal person that will act as the key technical referent of the PIU for Component 2. The PIU will be housed in the FeSMMIDA that reports directly to the Minister of Industry. At the regional level, the regional SME development agencies will serve as entry points.

The impact evaluation will focus on innovation and measurement with the beneficiaries of loans and BDS. The project's impact evaluation will support rigorous empirical analysis based on a quantitative comparison of a treatment and control groups before and after access to specific project interventions. Empirical analysis will typically build on survey data deliberately collected for this purpose: (1) a base-line survey which will be carried out prior to respondents' exposure to any relevant intervention activities; (2) an end-line survey which will be administered after the project is well into operation and (3) conditional on sufficient implementation of a mid-term survey. The main focus of the survey questionnaires will be on standard business performance measures such as sales, profit, investment and employment, with the aim of measuring the impact of the program on enterprise growth over time.

The impact evaluation will also aim to capture heterogeneous impacts across various groups of participants, especially between female and male entrepreneurs, examining differential impacts of access to loans, leases, and business development services for the growth of male and female-owned enterprises. During the design phase, the team will put emphasis on identifying and evaluating interventions that aim at tackling gender-specific constraints, particularly those that represent obstacles to the growth of female owned business and entrepreneurs. Additionally, analysis will examine differential impacts for younger and older firms, and firms of various sizes and sub-sectors.

The impact evaluation will involve a long-term research partnership with the Ethiopian Development Research Institute (EDRI). EDRI is a leading Ethiopian research institute, with strong expertise in research on enterprises and manufacturing in Ethiopia. EDRI is currently carrying out its own 5-year research program on 'Small Business Development in Ethiopia'. The SMEFP will partner with EDRI to develop joint research studies, with a focus on impact evaluations and measurement of intervention results. EDRI will serve as a research implementer for the impact evaluation component. EDRI will carry out data collection activities for the impact evaluation (baseline/midline/end-line surveys, focus group discussions, qualitative interviews, etc.), and empirical analysis will be carried out by joint teams of impact evaluation experts from the World Bank in partnership with EDRI researchers.

Annex 2.1:

Terms of reference for PIU Staff

Government of Ethiopia
Small and Medium Enterprises Finance Project

Background

The Government of Ethiopia has requested for financing from the World Bank toward the cost of the Small and Medium Enterprises Finance Project. This Project will support the Government of Ethiopia to increase access to finance for small and medium enterprises in Ethiopia and contribute to higher level objectives since the project is fully aligned with the priorities set out in the FY13-16 Country Partnership Strategy (CPS) which proposed addressing the liquidity gap and facilitating sustainable access to finance to SMEs in Ethiopia.

The SME Finance project has four components: (i) Component 1: Financial Services to SMEs; (ii) Component 2: Enabling environment for SME Finance; (iii) Component 3: Business Development Services to SMEs; (iv) Component 4: Project's management, communication and impact evaluation.

Project Implementation Unit

Under guidance of the Project Steering Committee and in accordance with procedures agreed on between the World Bank and the Government of Ethiopia, the PIU (housed in FeSMMIDA) shall be responsible for overall coordination of the project and direct implementation of component 2, 3 and 4 by managing the project's funds as well as procurement of goods and consulting services.

The PIU will be headed by a Coordinator who is responsible for overall coordination of PIU work and be held accountable to the Chairperson of the Project Steering Committee for all types of activities related to the financial management and procurements under the Project. The PIU Coordinator shall be responsible for executing control and management of procurement, disbursement, financial, and accounting issues related to the Project.

Terms of reference for PIU staff are as follows:

1) PIU COORDINATOR

Objective of the assignment

The PIU Coordinator will be responsible for management of the PIU and overall project coordination. He/she will be responsible for ensuring effective functioning of the PIU staff, and assisting the authorities to carry out Project activities. The PIU Coordinator will coordinate planning, implementation and monitoring of the project. He/she will report to Director General of FeSMMIDA under overall guidance of Chairperson of the Project Steering Committee and keep close contact with staff of the implementing agencies as well as the beneficiaries.

Duties and Responsibilities

Specific tasks of the PIU Coordinator will include, but not necessarily be limited to, the following:

- Prepare job descriptions, organize recruitment, and selection of PIU staff;
- Implement PIU procedures and guidelines, and make regular updates to the project implementation plan;
- Overall planning of the daily operation of the PIU, and the management of its work and its staff;
- Overall responsibility to ensure that the project activities are implemented in compliance with the conditions described in the Project Appraisal Document, Financial Agreement, Minutes of Negotiations, and other Project documents;
- Collects from the PIU staff comprehensive information on the status of operations under their responsibility;

- Final responsibility for the preparation of regular reports on the status of various Project activities for Government and the World Bank, with inputs from other PIU staff;
- Determine issues that affect Project implementation, and, with the assistance of others, seek solutions to such issues;
- Have close interaction with the management and staff of implementing agencies involved in Project activities to ensure the smooth implementation of Project activities;
- Liaise with the World Bank and other financing partners' task team;
- Represent the PIU in contacts with governmental authorities, and foreign entities and individuals to inform them about the Project and its objectives, activities, progress, and achievements;
- Coordinate and monitor the financial management system implemented by the PIU's project financial management specialist, including the timely independent Project audits;
- Coordinate and monitor the procurement management system implemented by the PIU's procurement specialist;
- Sign contracts for procurement of goods and services and assignment of consultants to the project;
- Coordinate and monitor the M&E arrangements under the project, with emphasis on result-based monitoring, and regular reporting to government and the World Bank;
- Management of all other staff in the PIU (Procurement Specialist, Financial Management Specialist, M&E Specialist, Non-Financial Services Coordinator)
- Overall coordination of the activities of national and international consultants; and
- Overall responsibility for the preparation of annual work plans and budgets, and necessary coordination with government and the World Bank to achieve their approval.

Qualifications and Experience

The successful applicant will have the following qualifications and experience:

- Higher education in business management, economics, or equivalent;
- Overall work experience not less than 10 years with specific experience in project management of not less than 5 years;
- Managerial experience in projects financed by the international organizations, and preferably by the World Bank;
- Demonstrated experience of strong communication skills and ability to manage a diverse team;
- Demonstrated integrity and accountability in all aspects of project management;
- Good report writing and presentation skill as well as adequate computer skills of internet, email, etc.; and
- Good working knowledge of written and spoken English.

Duration

Assignment will be for a period of five years, including a 3 month period of probation. The services of the Project Coordinator may be terminated at the end of the probation period, if his/her performance is less than satisfactory. The performance of the Project Coordinator also will be reviewed periodically and as appropriate the contract can be terminated in accordance with the terms of the contract if the performance of the Project Coordinator is found to be unsatisfactory.

Reporting Arrangements

PIU Coordinator will report to Director General of FeSMMIDA under overall guidance of Chairperson of the Project Steering Committee. He/she will also coordinate implementation activities closely with the World Bank Task Team Leader and the World Bank Ethiopia Country Office.

2) PROCUREMENT SPECIALIST

Objective of the assignment

The objective of the assignment is to assist the authorities to carry out procurement activities, as per the World Bank guidelines, for an efficient implementation of SMEFP.

Duties and Responsibilities

The duties and responsibilities of the Procurement Specialist will include, but not necessarily be limited to, the following:

- Carry out the international and local bidding processes for procurement of goods in accordance with the applicable World Bank procurement guidelines;
- Carry out the selection of consulting services in accordance with the applicable World Bank Consultant guidelines;
- Prepare the General Procurement Notice and Special Procurement Notices and get them published in UNDB, local and international newspapers;
- Obtain expressions of interest from consulting firms and forward them to the Tender Committee for preparation of shortlist;
- Provide for the final no objections of the World Bank on proposed final short lists of consulting companies, approved by the appropriate Tender Committee (TC);
- Jointly with relevant technical staff, develop bidding documents and requests for proposals;
- Obtain the no objection of the World Bank to the Requests for Proposals and Bidding Documents;
- Ensure that procurement for all goods and services not subject to World Bank prior review is done strictly in accordance with World Bank Guidelines;
- Invite bidders for proposals, based on the RFPs;
- Receive Technical and Financial Proposals and submit them to the Tender/Evaluation Committee;
- Assist the Evaluation Committee in preparing Evaluation Reports for procurement of goods and consulting services according to the standard World Bank format;
- Obtain the World Bank's no objection to the Evaluation Report and recommendations regarding awarding of the Contract;
- Ensure that no debarred or temporarily suspended firms or individuals will be allowed to participate in bidding or secure any contract award (on the World Bank web site: www.worldbank.org/debarr, a list of debarred and temporarily suspended firms or individuals is available through client connection);
- Ensure that no project staff involved in procurement and no members of tender committees are in conflict of interest;
- Prepare draft contracts for the approval;
- Assist in arranging delivery of the goods to the relevant implementing agencies;
- Inform the supplier of any damages or defects in the goods supplied and ensure that these are remedied;
- Manage all actions related to disputes with consultants or suppliers and warranties for the goods procured;
- Periodically review and revise the Procurement Plan for the project in consultation with implementing agencies and the World Bank;
- Monitor and administer contracts concluded with the international and local consultants under the Project;
- Handle procurement related complaints including adequate logging and recording, notifying the World Bank, and preparing response;

- Maintain all documentary records relating to procurement under the project for scrutiny by the independent auditor and World Bank supervision missions;
- Prepare reports on procurement for PIU Coordinator;
- Take other actions necessary to facilitate the effective and timely implementation of the project;
- Perform other related duties as may be required for the project activities.

Qualifications and Experience

The successful applicant will have the following qualifications and experience:

- Higher education in finance, management, international business, or related fields; possession of professional certificates in the sphere of procurement is a preference;
- At least five years of experience in procurement and proven ability to manage international procurement of goods and consulting services, preferably in accordance with World Bank guidelines;
- Proven high integrity and accountability in all aspects of project procurement;
- Ability to work effectively with others in a teamwork environment;
- Good report writing and presentation skill as well as adequate computer skills of internet, email, etc.; and
- Good working knowledge of written and spoken English.

Duration

Assignment will be initially for a period of five year, including a 3-month period of probation. The services of the Procurement Specialist may be terminated at the end of the probation period, if his/her performance is less than satisfactory. The performance of the Procurement Specialist also will be reviewed periodically and as appropriate the contract can be terminated in accordance with the terms of the contract if the performance of the Procurement Specialist is found to be unsatisfactory

Reporting Arrangements

The Procurement Specialist will report to the PIU Coordinator. He/she will also coordinate implementation activities closely with the World Bank Task Team and the World Bank procurement staff in Ethiopia Country Office.

3) FINANCIAL MANAGEMENT SPECIALIST

Objective of the assignment

The objectives of the assignment are:

- Providing project financial management activities, as per the World Bank guidelines, for an efficient implementation of SMEFP;
- Assisting the PIU Coordinator in preparation and timely submission to the Government and the World Bank of all necessary documents and reports in accordance with relevant procedures.

Duties and Responsibilities

The duties and responsibilities of the Financial Management Specialist will include, but not necessarily be limited to, the following:

- The FM specialist will only be responsible for component 2, 3 and 4 of the project, while component 1 will be handled directly by DBE.
- Overall responsibility for project financial management, including budgeting, funds flow, accounting, internal control and reporting;
- Maintain proper system of accounting and internal control, in accordance with sound accounting principles and practices, to ensure effective and efficient use of project funds;

- Responsible for functions of disbursement in accordance with World Bank procedures and guidelines;
- Responsible for preparation and timely submission to the World Bank of withdrawal applications and all necessary supporting documents in accordance with relevant disbursement procedures;
- Prepare the Projects' annual budget, in collaboration with PIU Coordinator and specialists at PIU;
- Maintain financial records, and exercise financial control over all project resources;
- Manage the Project's accounts, including the Designated Accounts, in compliance with the procedures established by the World Bank, ensuring effective internal control over bank accounts, including timely reconciliation of bank statements with Project bank accounts;
- Review and check withdrawal applications to ensure accuracy, completeness and expenditure eligibility in accordance with the relevant financing agreement;
- Assist the PIU Coordinator in preparation of financial and Project progress reports, ensuring timely submission of these reports to the Government and the World Bank;
- Primary responsibility of preparation of interim and annual financial statements, as well provision of all necessary information that may be requested by external auditors and other agencies;
- Provide strict adherence to financial management procedures and carrying out the instruction of PIU Coordinator on financial management, accounting and audit; and timely replenishment of the Designated Accounts;
- Assist in preparation the reports on project implementation and budget execution to the Government and World Bank;
- Any other duties that may be reasonably assigned from time to time by the PIU Coordinator.

Qualifications and Experience

The successful applicant will have the following qualifications and experience:

- Higher education in accounting, finance or economics;
- At least five years of practical experience in area of financial management and accounting in similar position in a large public or private sector organization; experience in the World Bank financed projects or other international development organizations would be considered as an additional advantage;
- Deep knowledge of the theory and practice of accounting, budget formulation and funds flow management;
- Ability to work effectively with others in a teamwork environment;
- Ability to communicate effectively, verbally and in writing;
- Good report writing and presentation skill as well as adequate computer skills of accounting software, internet, email, etc.; and
- Good working knowledge of written and spoken English.

Duration

Assignment will be initially for a period of five year, including a 3-month period of probation. The services of the Financial Management Specialist may be terminated at the end of the probation period, if his/her performance is less than satisfactory. The performance of the Financial Management Specialist also will be reviewed periodically and as appropriate the contract can be terminated in accordance with the terms of the contract if the performance of the Financial Management Specialist is found to be unsatisfactory.

Reporting Arrangements

The Financial Management Specialist will report to the PIU Coordinator. He/she will also coordinate implementation activities closely with the World Bank Task Team and the World Bank finance staff in Ethiopia Country Office.

4) MONITORING AND EVALUATION SPECIALIST (M&E)

Objective of the assignment

The objectives of the assignment are:

- Providing Monitoring and Evaluating of the SMEFP implementation, as per the plan;
- Assisting the PIU Coordinator in preparation and timely submission to the Project Steering Committee and the World Bank of all necessary documents and reports in accordance with relevant procedures;
- Coordinating the daily work of consultants and specialists, involved into the Project components' implementation.

Duties and Responsibilities

The duties and responsibilities of the Monitoring and Evaluation Specialist will include, but not necessarily be limited to, the following:

- Work plans on implementation of components of the Project, conduct analysis of the results' correspondence with the work plans and identify problems, provide recommendations and solutions for efficient Project implementation;
- Lead the establishment of a registration system from the project, where participating SMEs can register, receive a unique identification number/card, and be tracked in a project database.
- Ensure the consolidation of reports for PIU Coordinator, prepare quarterly, biannual, annual and final reports on Project implementation and completion;
- Prepare inputs on M&E for PIU Coordinator for inclusion into the brief monthly report, summarizing the Project development results, procurement and other project activities;
- Collect and handle interim information to be submitted to PIU Coordinator for preparing regular analytical notes/reports on arrangements and results, which are realized within the framework of Project's components;
- Prepare preliminary materials to PIU Coordinator for revising work plans and budgets, inputs to the terms of reference of consultants when relevant;
- Prepare necessary materials, ensure their distribution to the Project Steering Committee, and draft inputs on M&E for meetings minutes and decisions;
- Prepare, distribute materials for monthly/quarterly's meetings of PIU Coordinator with consultants and staff of the Project, with respective staff of implementing agencies, for a general review of progress in achieving Project objectives; propose appropriate corrective actions and solutions when needed, and draft minutes of meetings;
- Ensure the consolidation of reports for PIU Coordinator, submitted by all other Project staff for review and discussions;
- Prepare necessary materials for preparation of the next annual work plan and budget in sufficient time ahead of fiscal year end;
- Prepare recommendations to PIU Coordinator on introduction of changes into the Project Implementation Manual (if necessary);
- Prepare any other materials to PIU Coordinator for reports, in response to the Project Steering Committee's request;
- Perform other related duties as may be required for the project activities.

Required Outputs/Written Reports

Mandatory written reports to be submitted to the PIU Coordinator:

1. A brief monthly report (in a standard format) summarizing the results of conducted activities;

2. Quarterly consolidated report on implementation of the project activities (on the base of reports, submitted by other Project staff);
3. Six-month report (in a standard format) summarizing the results of conducted activities;
4. Annual report (in a standard format) summarizing the results of conducted activities;
5. Final report, summarizing the results of conducted activities;

Qualifications and Experience

- Higher education in the field of finance or economics;
- At least five years of work in international projects in the field of monitoring and evaluation; experience within projects financed by international organizations, related to the project work coordination – is desirable;
- Proven high integrity and accountability in all aspects of project monitoring and evaluation;
- Ability to work effectively with others in a teamwork environment;
- Good report writing and presentation skill as well as adequate computer skills, internet, email, etc.; and
- Good working knowledge of written and spoken English.

Duration

Assignment will be initially for a period of five year, including a 3-month period of probation. The services of the Monitoring and Evaluation Specialist may be terminated at the end of the probation period, if his/her performance is less than satisfactory. The performance of the Monitoring and Evaluation Specialist also will be reviewed periodically and as appropriate the contract can be terminated in accordance with the terms of the contract if the performance of the Monitoring and Evaluation Specialist is found to be unsatisfactory.

Reporting Arrangements

The M&E Specialist will report to the PIU Coordinator. He/she will also coordinate implementation activities closely with the World Bank Task Team and the World Bank Ethiopia Country Office.

5) NON-FINANCIAL SERVICES COORDINATOR

Objective of the assignment

The Non-Financial Services Coordinator will be responsible for the implementation of Component 3: Business Development Services to SMEs, and the day-to-day coordination with other components. He/she is responsible for planning, implementation and follow-up of project activities under Component 3.

Duties and Responsibilities

Specific tasks of the Non-Financial Services Coordinator will include, but not necessarily be limited to, the following:

- Develop terms of reference for Business Development Service Provider(s) and provide technical input in the selection of BDS provider(s)) that will be assigned to provide BDS supports that include business management and entrepreneurship training, business plan development, marketing strategy, human resource management, financial systems and bookkeeping to SME Clients;

- Work with BDS provider(s) in developing detail action plan for business development services to SMEs and ensure that the work plan activities are implemented on schedule;
- Establish close contact with Regional SME Development Agencies; facilitate and participate in identification of training needs of SMEs;
- Provide technical back stopping; participate and contribute to the training, seminars, workshops and forums organized for SMEs.
- Coordinate and manage the work of business service provider(s) assigned/recruited to provide capacity building advisory and training services to SMEs.
- Monitor and evaluate all development activities conducted by BDS provider(s)
- Ensure that products and services offered by the BDS provider(s) are constantly improved
- Overall responsibility to ensure that the project activities are implemented in compliance with the conditions described in the Project Appraisal Document (PAD) and other operational document relevant to implementation of component 3.
- Collect from the Regional SME Development Agencies comprehensive information on the status of BDS operations under their responsibility;
- Responsible for the preparation of regular reports on the status of component 3 implementation and provide input to PIU Coordinator for preparation of project progress report for management purpose, for Government and the World Bank;
- Perform other related duties as may be required for the project activities.

Qualifications and Experience

The successful applicant will have the following qualifications and experience:

- Higher education in business management, economics, or equivalent;
- Overall work experience not less than 5 years with specific experience in business development services of not less than 2 years;
- Managerial experience in projects financed by the international organizations;
- Demonstrated experience of strong communication skills and ability to coordinate a diverse team;
- Good report writing and presentation skill as well as adequate computer skills of internet, email, etc.; and
- Good working knowledge of written and spoken English.

Duration

Assignment will be initially for a period of five year, including a 3 month period of probation. The services of the Non-Financial Services Coordinator may be terminated at the end of the probation period, if his/her performance is less than satisfactory. The performance of the Non-Financial Services Coordinator also will be reviewed periodically and as appropriate the contract can be terminated in accordance with the terms of the contract if the performance of the Non-Financial Services Coordinator is found to be unsatisfactory.

Reporting Arrangements

Non-Financial Services Coordinator will report to PIU Coordinator. He/she will also coordinate implementation activities closely with the World Bank Task Team and the World Bank Ethiopia Country Office.

Annex 3-1 Selection Criteria for PFIs

Leasing Companies (LC):

Participating Capital Goods Finance Companies (CGFC) will be selected on the basis of the following eligibility criteria. The eligibility criteria will apply throughout the period in which the CGFCs participate in the project:

1. The CGFCs must at all time hold a Capital Goods Finance Business license *duly issued by the National Bank of Ethiopia (NBE)* and must have started operation for a minimum period of 12 months.
2. The participating CGFCs must be and remain in compliance with all applicable laws and regulations issued by the Ethiopian authorities, including the prudential and regulatory norms set forth and enforced by the NBE, as certified by independent external auditors on an annual basis and by quarterly returns provided by CGFCs to the NBE.
3. In case the initial eligibility of the CGFCs falls to such a date that their year-end audits have been already completed and do not cover this requirement, then the CGFCs would be required to submit a management letter in an acceptable format confirming their compliance with applicable laws and regulations issued by the Ethiopian authorities.
4. The participating CGFCs board of directors and managers must at all times be considered “fit and proper” by the NBE. It must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile.
5. The participating CGFCs must at all times have the following comprehensive policies, procedure manuals, risk management guidelines, for management of all types of risks.
6. The capital adequacy ratio, as prescribed by the NBE, measured as ratio of total capital to risk weighted asset must be over 10% at any one time.
7. Participating CGFCs must be profitable or show adequate progress towards reaching profitability by submitting a copy of recent business plan showing how and when they intend to reach profitability.
8. Participating CGFCs must have adequate internal audits and controls for its specific risk profile.
9. Participating CGFCs must have an acceptable leased assets classification and provisioning policy commensurate with their capital goods finance portfolio and credit risk exposure.
10. Participating CGFCs must have adequate portfolio quality, and non-performing capital goods finance portfolio must be less than 5% of the gross-capital goods finance portfolio.
11. Participating CGFCs must have basic management information systems.

12. Participating CGFCs must have in place a basic Environmental and Social Management System (ESMS) and show commitment to enhancing their ESMS in line with the guidance provided in the OM and based on the applicable requirements specified in section VI. Participating CGFCs must agree to undergo mandatory technical assistance and training of their staff in environmental and social risk management.
13. The CGFC must show commitment to deploy adequate staff and to make necessary policy adjustments including introduction of appropriate products for SMEs.
14. Participating CGFCs must diversify their source of funding and show commitment to build adequate capital base (through issuance of shares and retained earnings) in order to ensure sustainable operation and service to the SMEs.
15. Participating CGFCs must agree to undergo intensive mandatory technical assistance, including on-site and on-the-job training.

Micro Finance Institutions (MFIs)

PMFIs will be selected on the basis of the following criteria. The criteria will apply throughout the period in which the PMFIs participate in the project:

1. PMFIs must be duly licensed in Ethiopia and have at least three years of operation.
2. The PMFIs must be and remain in compliance with applicable laws and regulations issued by the Ethiopian authorities, including the prudential and regulatory norms set forth and enforced by the NBE, as certified by independent external auditors on an annual basis and by quarterly returns provided by PMFIs to NBE.
3. In case the initial eligibility of the PMFIs falls to such a date that their year-end audits have been already completed and do not cover this requirement, then the PMFIs would be required to submit a management letter in an acceptable format confirming their compliance with applicable laws and regulations issued by the Ethiopian authorities.
4. PMFI's board of directors and managers must be considered "fit and proper" by DBE. It must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile.
5. The PMFI must have well defined policies and written procedures for management of all types of financial risks as defined in the Risk Management guidelines issued by NBE (i.e. credit, operational, liquidity and market risks).
6. The capital adequacy ratio must be not less than that prescribed by the NBE prudential regulation which is currently 12% of risk weighted assets.
7. Operational self-sufficiency: The operational self-sufficiency of the PMFI must be over 100% for the last three consecutive years.
8. The PMFI must have adequate liquidity (e.g. shall maintain at all times liquidity ratio as defined by NBE of at least 20 %).

9. The PMFI must have positive profitability for the last three years and acceptable risk profile.
10. The PMFI must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions in line with applicable NBE directive.
11. The PMFI must have adequate portfolio quality, with PAR \geq 90 of at most 5% of total gross loans.
12. The PMFI must have adequate internal audits and controls and risk management.
13. The PMFI must have adequate management information systems.
14. The PMFI must agree to engage in individual lending to small and medium enterprises as defined under the SME Finance Project.
15. The PMFI must agree to and show capacity in terms of branch network, adequate staffing and readiness to make policy adjustments, in order to engage in individual lending to SMEs.
16. The PMFIs must have in place a basic Environmental and Social Management System (ESMS) and show commitment to enhancing their ESMS. The PMFIs must agree to undergo mandatory technical assistance and training of their staff in environmental and social risk management.
17. The PMFI must show commitment to give adequate focus on savings mobilization as a sustainable source of finance.
18. The PMFI must agree to undergo intensive mandatory technical assistance.

Commercial Banks (CBs)

Participating commercial banks will be selected on the basis of the following criteria. The criteria will apply throughout the period in which the commercial banks participate in the project:

1. The participating commercial banks must be *duly licensed* in Ethiopia and have at least three years of operation.
2. The participating commercial banks must be and remain in compliance with applicable laws and regulations issued by the Ethiopian authorities, including the prudential and regulatory norms set forth and enforced by the National Bank of Ethiopia (NBE), as certified by independent external auditors on an annual basis and by quarterly returns provided by commercial banks to the NBE.
3. In case the initial eligibility of the commercial banks falls to such a date that their year-end audits have been already completed and do not cover this requirement, then the commercial banks would be required to submit a management letter in an acceptable format confirming their compliance with applicable laws and regulations issued by the Ethiopian authorities.

4. The participating commercial bank's board of directors and managers must be considered "fit and proper" by the National Bank of Ethiopia (DBE). It must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile.
6. The participating commercial banks must have well defined policies and written procedures for management of all types of financial risks as defined in the Risk Management guidelines issued by the NBE (i.e. credit, operational, liquidity and market risks).
7. The capital adequacy ratio, as prescribed by the NBE, measured as ratio of total capital to risk weighted asset must be over 8% at any one time.
8. Participating commercial banks must have adequate liquidity (e.g. shall maintain at all times liquidity ratio as defined by the NBE of at least 15%).
9. Participating commercial banks must be profitable and show consistent performance over the last three years.
10. Participating commercial banks must have adequate internal audits and controls for its specific risk profile.
11. Participating commercial banks must classify its assets and off balance sheet credit risk exposures (at least four times per year) and make adequate provisos in-line with applicable NBE directive.
12. Participating commercial banks must have adequate portfolio quality, with NPL of less than 5%.
13. Participating commercial banks must have adequate management information systems.
14. Participating commercial banks must agree to engage in SMEs lending as defined under the SME Finance Project.
15. Participating commercial banks must agree to and show capacity in terms of branch network, adequate staffing and readiness to make policy adjustments, in order to engage in lending to SMEs as defined under the SME Finance Project.
16. Participating commercial bank must show commitment and adequate focus on savings mobilization as a sustainable source of finance.
17. Participating commercial banks must agree to undergo intensive mandatory technical assistance.
18. All participating commercial banks will be required to reflect the minimum standards of financial consumers' protection in their on-lending activities under the project.
19. All participating commercial banks must have in place a basic Environmental and Social Management System and show commitment to enhancing their ESMS in line with the guidance provided in the OM and based the applicable requirements specified in section 3.6. All participating commercial banks must agree to undergo mandatory technical assistance and training of their staff in environmental and social risk management.

Annex 3.2 List of Excluded Activities

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
2. Production or trade in weapons or munitions.¹
3. Gambling, casinos and equivalent enterprises.¹
4. Production or trade in alcoholic beverages (excluding beer and wine).¹
5. Mining/quarrying activities and agricultural activities.
6. Trade in wildlife or wildlife products regulated under Convention on International Trade in Endangered Species (CITES).
7. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where DBE considers the radioactive source to be trivial and/or adequately shielded.
8. Production or trade in or use of unbounded asbestos fibers.
9. Any activities involving significant degradation or conversion of critical habitats² and/or any activities in legally protected areas.
10. Activities damaging to national monuments and other critical cultural heritage.³
11. Drift net fishing in the marine environment using nets in excess of 2.5 km in length, electric shocks, or explosive materials.
12. Production or trade in wood or other forestry products other than from sustainably managed forests.⁶
13. Production or trade in pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (PCBs) subject to international phase outs or bans.
14. Production or activities involving harmful or exploitative forms of forced labor⁴ harmful child labor.⁵
15. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (gasoline, kerosene, other petroleum products, textile dyes etc.).
16. Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by historically underserved traditional local communities.
17. Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement.⁷
18. Military or police equipment or infrastructures, and equipment or infrastructure which result in limiting people's individual rights and freedom (i.e. prisons, detention centers of any form) or in violation of human rights.
19. Activities targeting tobacco manufacturing, processing, or specialist tobacco distribution, and activities facilitating the use of tobacco (e.g. "smoking halls").¹
20. Activities involving live animals for experimental and scientific purposes.

Footnotes

1. This does not apply to enterprises that are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to an enterprise's primary operations.
2. Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitats of significant importance for required for critically endangered or endangered species as defined by the IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant concentrations of migratory species and /or congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes. Primary Forests or forests of High Conservation Value shall be considered Critical Habitats.
3. Critical cultural heritage consists of (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; and (ii) legally protected cultural heritage areas, including those proposed by national governments for such designation.
4. Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.
5. Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.
6. Sustainable forest management may be demonstrated by the application of industry-specific good practices and available technologies. In some cases, it may be demonstrated by certification/ verification or progress towards certification /verification under a credible standards system.
7. Land acquisition and/or restrictions on land use may result in the physical displacement of people (involuntary resettlement) as well as their economic displacement (as loss of assets and/or means of livelihood, regardless of whether or not the affected people are physically displaced).

Annex 3.3 EIB Window Conditions and Reporting Requirements

1. EIB non-objection to a Credit Facility Agreement with a PFI

For each new Credit Facility Agreement (CFA) with an existing or a new PFI, DBE will solicit a non-objection from the EIB. Only PFIs that are accepted by the EIB can be financed under the EIB Line of credit. DBE will submit all PFI appraisal reports, including AML/CFT compliance documents, to the EIB.

2. Compliance with AML/CFT requirements

2.1 All information and documents related to a PFI is to be obtained in the context of the full Customer Due Diligence measures (up to the level of the PFI's ultimate beneficial owner) performed by DBE before entering into any contractual relationship with the PFI in line with the principles and standards of the FATF recommendations as amended and supplemented from time to time

(http://www.fatfgafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf).

2.2 Wolfsberg's style EIB AML/CFT Questionnaire is duly filled in (the EIB will share an example with DBE);

2.3 Any additional information/document in relation with the PFI that the EIB could reasonably ask for should be obtained; and

2.4 DBE will confirm that there is no indication, after performing the Customer Due Diligence measures as mentioned above, that a Prohibited Practice (i.e. corruption, fraud, collusion, coercion, obstruction, money laundering and terrorist financing) has been, or could be, committed and that no exposure/link to EU/UN sanctioned persons or entities has been identified⁹.

3. Initial scope of sub-projects under the EIB window

Only lease finance and working capital sub-projects to be undertaken by an Eligible SME, which has been selected and approved in conformity with the provisions of the Operations Manual, can

⁹“**Sanction Lists**” means:(i) any economic, financial and trade restrictive measures and arms embargoes issued by the EU pursuant to Chapter 2 of Title V of the Treaty on EU as well as Article 215 of the Treaty on the Functioning of the EU, including but not limited to those available on the official EU http://www.eas.europa.eu/cfsp/sanctions/consol-list/index_en.htm, http://eas.europa.eu/cfsp/sanctions/docs/measures_en.pdfas amended and supplemented from time to time or on any successor page; or, (ii) any economic, financial and trade restrictive measures and arms embargoes issued by the United Nations Security Council pursuant to Article 41 of the UN Charter, including but not limited to those available on the official UN website<http://www.un.org/en/sc/documents/resolutions/>as amended and supplemented from time to time or on any successor page.”

be financed under the EIB window. The scope may be reviewed in light of the experience built with the current operation and include investment finance projects.

Activities constituting pure real estate development activity (including the construction of new buildings, renovation of existing buildings, and purchase of land for the purpose of selling to others) and activities constituting pure financial transactions (such as brokerage firms trading public stocks, other securities or any other financial product; re-financing of existing liabilities) are not eligible under EIB funds.

4. EIB participation limit

The EIB will finance up to 50% of a portfolio of eligible SMEs sub-projects equal to the double of its loan (EUR 140m). At **portfolio level**, the total financing of eligible SMEs' sub-projects (under the lending and leasing windows), should match the EIB's contribution of EUR 70m. The matching funds may come from the WB under the SMEFP and/or DBE or PFI's alternative funding sources.

5. Utilization of funds until EIB loan maturity

Outstanding EIB funding of the project will need to be revolved to eligible SMEs until maturity of the EIB loan at the level of DBE and of the selected PFIs... In case DBE is not able to utilize the drawn resources, these funds will need to be returned to the EIB, as specified in the loan contract/subsidiary financing agreement with the EIB. Funds that are not allocated to eligible SMEs by PFIs within a period of 6 months from repayment by existing SME clients under the project will be recalled and re-allocated by DBE.

6. Reporting requirements

In order to justify the EIB loan amount, at the end of the first allocation period of each EIB loan tranche up to the Final Beneficiaries, DBE shall report a total amount of eligible sub-project financings that is at least twice the EIB loan amount drawn by MoFEC. DBE will have a first allocation period of 2 years to allocate these funds to Final Beneficiaries and other PFIs. When funds of an EIB loan tranche are revolved with an existing or new PFI, the allocation period for each new Credit Facility Agreement (CFA) will be 1 years . At the end of the allocation period of each CFA, DBE shall report the total amount of eligible sub-project financings allocated under that CFA. On a portfolio basis, the total amount of eligible sub-project financings outstanding at all EIB eligible PFIs shall be at least twice the outstanding EIB contribution amount.

DBE shall report to the EIB until the end of the first allocation period, which is fixed on the EIB loan tranche signature date, by completing and returning Table 9 with project results indicators. Table 9 shall be completed separately for each PFI, as well as DBE's own direct financing of SMEs. When funds are revolved by DBE, DBE will submit Table 9 for each subsequent CFA at the end of the allocation period of that CFA.

Amounts shall be measured in EUR based on the ETB/EUR market exchange rates at the allocation dates. Total volume of financing allocated to SMEs may exceed the initial amount received by the PFI from the SMEFP since sub-loans can be revolved. The total amount of sub-projects needs to be reported, independent of the EIB share in the financing of these sub-projects.

On request, at any time, each PFI including DBE shall provide a list of eligible sub-projects that were financed with support of EIB funds under the SMEFP, indicating the name and address of the Final Beneficiary, start and end dates of the sub-project financing, and the sub-project amount in EUR. PFIs will keep legal documents of sub-projects (building permit, environmental authorizations etc.) on file, and make them available through DBE to the EIB upon request. Final Beneficiaries shall allow sub-project site visits (clause to be included in the Sub-Credit Agreement between the PFI and the Final Beneficiary).

Table 9 - Project Results Indicators for EIB eligible PFIs: Cumulative Realized Values

1.	Name of financial institution				
2.	Type of financial institution (LC, CB, MFI, DBE direct lending)				
		<i>Leasing or working capital lending to SMEs</i>			
		<i>Total</i>	<i>Small firms with up to 19 employees</i>	<i>Medium-sized firms with up to 100 employees</i>	<i>Female-owned firms</i>
3.	Volume of financing to SMEs under the Credit Facility (Amount in EUR)				
3.1	Volume of financing for <i>manufacturing</i> (including agro-processing)				
3.2	Volume of financing for <i>construction</i>				
3.3	Volume of financing for <i>tourism</i>				
3.4	Volume of financing with an initial maturity of two years or more				
3.5	Volume of financing for an amount of more than USD 50,000				
4.	Number of SMEs reached under the credit facility				
5.	Initial weighted average maturity of the financing to SMEs (in years)				
6.	Average number of employees at the SMEs				
7.	Portfolio quality under the credit facility (Percentage of non-performing loans)				

Annex 3.4: Sample Credit Facility Agreement between DBE and PFIs

A) CFA between DBE and Participating Commercial Banks

Small and Medium Enterprises Finance Project (SMEFP)
(IDA Credit No. 5793-ET)

Small and Medium Enterprise Credit Facility

Small and Medium Enterprise Credit Facility Agreement (SMECFA)
Between

Development Bank of Ethiopia (DBE) and _____ **Participating Commercial Bank (PCB)**
This Agreement is made and entered into by and between the **Development Bank of Ethiopia**
("the Lender") and ----- Participating Commercial Bank ("the Borrower").

Whereas the Government of Ethiopia has obtained (i) a loan in the principal amount of SDR 144,800,000 (USD \$ 200 million equivalent) from the International Development Association (IDA) through a Financing Agreement signed on June 15, 2016 and (ii) a loan in the principal amount of EUR 70 million from the European Investment Bank(EIB) through a Financing Agreement signed on June 16/18 2017, for the purpose of financing Small and Medium Enterprises Finance Project (SMEFP), which objective is to increase access to finance for eligible Small and Medium Enterprises in Ethiopia.

Whereas, Lender has entered into (i) a Subsidiary Financing Agreement with the Government of Ethiopia, through the Ministry of Finance and Economic Cooperation, on the 12th day of July 2016 (hereinafter called "the Subsidiary Agreement") pursuant to which Lender is designated to act as implementing agency for component 1 of SMEFP: financial service to Small and Medium Enterprise (Window 1: Leasing finance to SMEs through direct lending and whole sale through the Leasing Companies and Window 2 : SME lending whole sale through PFI's for working capital only) and (ii) a Project Agreement with EIB signed 27 June 2017 and setting out terms and conditions for the use of the funds made available the Lender as implementing agency.

Whereas the Borrower agrees to participate in Small and Medium Enterprise Credit Facility under Component 1 of SMEFP (SMECF); has applied for a loan of Birr _____ hereinafter called the "Loan¹⁰", to finance working capital requirement of Agro processing and Manufacturing sectors.

Now therefore on the premises above and on terms and conditions here in under, Lender and the Borrower agree as follows:

¹⁰ Moreover, for those SMEs receiving leasing finance, or working capital linked to finance, and/or business development service also tour and construction will be allowed in line with the priority areas for SMEs. SMEs in the tour and construction industries will not be eligible to receive working capital only.

Article I

Section 1.1 - Definitions:

Unless the context provides otherwise, the several terms here in under shall have the following meanings:

- a) “AWPB” means the annual work plan and budget
- b) “AML/CFT” means Anti Money Laundering and Countering the Financing of Terrorism
- c) Borrower – shall mean Participating (Commercial)Bank
- d) DBE” means Development Bank of Ethiopia
- e) “DFID” means Department for International Development.
- f) “EDRI” means Ethiopian Development Research Institute
- g) “EIB” means European Investment Bank
- h) “EP” means Enterprise Partners
- i) “ESMS” means Environmental and Social Management System
- j) “FM” means Financial Management
- k) “IDA” means International Development Association
- l) “IFRs” means Interim Financial Reports
- m) “Lender” means Development Bank of Ethiopia
- n) “MIS” means Management Information Systems
- o) “MoFEC” means Ministry of Finance Economic Cooperation
- p) “NBE” means the National Bank of Ethiopia
- q) “Operations Manual” means manual that guides project implementation
- r) “PEPE” means Private Enterprise Program for Ethiopia
- s) “PCB” means Participating Commercial Bank
- t) “PMT” means the Project Management Team within Lender
- u) “SLA” means Sub-loan Agreement
- v) “SMECF” means the Small and Medium Enterprise Credit Facility

- w) “SMECF A” means Small and Medium Enterprises Credit Facility Agreement
- x) “SMEFP” means Small and Medium Enterprises Finance Project
- y) “TA” means Technical Assistance
- z) “WB” means the IDA

Section 1.2 References:

Unless otherwise indicated, references to Articles and Sections refer to Articles and Sections of this Agreement.

Section 1.3 Headings:

Headings are given for the purpose of convenience and do not form an integral part of this Agreement.

Article II

Small and Medium Enterprise Credit Facility (SMECF)

Section 2.1 SMECF Implementation:

The Borrower declares its commitment to the goals and purposes of the SMECF and in furtherance of such goals and purposes, the Borrower shall carry out the Credit Facility substantially in accordance with provisions of this Agreement and such supplementary conditions as may be stipulated by Lender while approving AWPB.

Section 2.2 Eligibility for SMECF participation:

The Borrower shall be eligible for participation in the SMECF provided it ensures continued compliance with the eligibility criteria specified in Article III below and formally verified on annual basis.

Section 2.3 Annual Work Plan and Budget

- a) The Borrower shall prepare and submit to Lender for its approval annual work plan and budget for the upcoming credit facility no later than March 31 of each calendar year during the program implementation period.
- b) The Borrower shall carry out the implementation of the program in accordance with the annual work plan and budget

Section 2.4 SMECF Credit funds:

Lender shall on lend part of the credit funds made under the SMECF to the Borrower subject to the eligibility criteria in Article III below, or such criteria as may be amended from time to time, and in accordance with the provisions of this agreement.

Section 2.5 SMECF Credit facility duration:

The duration of the SMECF shall be aligned with the duration period of the SMEFP.

Article III

Eligibility Criteria for participation in the SMECF

Section 3.1The Borrower is selected based on the following criteria:

The criteria will apply throughout the period in which the borrower participates in the SMECF:

- (I) The Borrower must be duly licensed in Ethiopia and have at least three years of operation.
- (II) The Borrower must be and remain in compliance with applicable laws and regulations issued by the Ethiopian authorities, including the prudential and regulatory norms set forth and enforced by the National Bank of Ethiopia (NBE), as certified by independent external auditors on an annual basis and by quarterly returns provided by commercial banks to the NBE.
- (III) In case the initial eligibility of the Borrower fails to such a date that their year-end audits have been already completed and do not cover this requirement, then the Borrower would be required to submit a management letter in an acceptable format confirming their compliance with applicable laws and regulations issued by the Ethiopian authorities.
- (IV) The Borrower's board of directors and managers must be considered "fit and proper" by the NBE. It must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile.
- (V) The Borrower must have well defined policies and written procedures for Management of all types of financial risks as defined in the Risk Management guidelines issued by NBE (i.e. credit, operational, liquidity and market risks).
- (VI) The capital adequacy ratio must be not less than that prescribed by the NBE prudential regulation which is currently 8% of risk weighted assets.
- (VII) The Borrower must have adequate liquidity (e.g. shall maintain at all times liquidity ratio as defined by NBE of at least 15%).

(VIII) The Borrower must be profitable and show consistent performance over the last three years.

(IX) The Borrower must have adequate internal audits and controls for its specific risk profile.

(X) Participating Borrower must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions in-line with applicable NBE directive.

(XI) The Borrower must have adequate portfolio quality, with PAR \geq 90 of at most 5% of total gross loans.

(XII) The Borrower must have adequate management information system.

(XIII) The Borrower must agree to engage in SMEs lending as defined under the SME Finance Project.

(XIV) The Borrower must agree to and show capacity in terms of branch network, adequate staffing and readiness to make policy adjustments, in order to engage in individual lending to SMEs as defined under the SME Finance Project.

(XV) The Borrower's must have in place an Environmental and Social Management System (ESMS) acceptable to and as required by the Lender to identify, asses and manage environmental and social risk and impacts associated with sub-loans.

(XVI) The Borrower must show commitment to give adequate focus on saving mobilization as a sustainable source of finance.

(XVII) The Borrower must agree to undergo intensive mandatory technical assistance.

(XVIII) The Borrower will be required to reflect the minimum standards of financial consumers' protection in their on-lending activities under the project.

Article IV

On - Lending Terms and Condition

Section 4.1 The Loan:

The Lender agrees to extend Loan, which is denominated in Birr to the Borrower from time to time in accordance with the provisions of this agreement and as may be stipulated at the time of sanction and disbursement of loans.

The Lender, in accordance with the terms and conditions of this contract, agrees to lend to the Borrower a loan of **Birr -----**for the PCB to provide sub-loans to finance working capital requirements of Small and Medium Enterprises to carry out sub-projects, as defined in Sections 5.8.

Section 4.2 Interest Rate:

The Borrower shall pay to Lender interest at the rate of (7%) per annum, or such other rate as may be revised from time to time on a mutual consensus basis, based on the interest rate structure of Ethiopian banking system, on the amount of the outstanding loan from time-to-time, payable semi – annually.

Interest shall accrue from the respective dates on which amounts are so withdrawn and shall be payable semi-annually on January 31st and July 31st, of each year commencing on _____.

Section 4.3 Loan maturities:

The Lender will on-lend credit facility funds to the Borrower for period of (5) years (with a maximum limit of five years including grace period). Grace periods can be up to one year. The Lender will determine the actual repayment period and installment schedule at the time of approval and disbursement respectively based on the requirements of the Borrower and its operational and financial performance.

Section 4.4 Repayments to Lender:

The Borrower's is required to repay interest and principal semi- Annually on January 31 and July31. The Borrower is required to make payments to Lender regardless of whether or not received payments from its borrowers. The interest due shall be calculated on a semi- Annual basis.

The Borrower undertakes to repay the principal amount of the Loan in ____equal semi-annual instalments each instalment, being Birr _____(in words) and the last instalment being (_____) payable on January 31 and July 31 of each year commencing on _____ and ending on _____

Appendix1. Loan Repayment schedule.

Year	Repayment Principal	Outstanding Balance
	-	
Sub-Total		
Year 1		
January		
July		
Year 2		
January		
July		
Year 3		
January		
July		
Year 4		
January		
July		
Grand-Total		-

Section 4.5 Loan repayment acceleration:

Lender reserves the right to modify the prescribed loan repayment schedule and accelerate repayment of the outstanding principal amount of the loan or recall the entire outstanding loan amount together with accrued interest if, there is significant deterioration in the quality of management and/or financial position of the Borrower or it has violated the conditions of loan sanction or if the Borrower's performance has fallen below the selection/ eligibility criterion.

Section 4.6 Penalty Interest:

In case of default or failure to repay the principal amount of the Loan and any other charges and costs, or failure to pay interest thereon, the interest rate applied from the date of such default or failure shall be increased by 3% (three per cent) for the default amount and the normal rate of interest is applicable after the default period amount is paid.

Section 4.7 Funds reallocation

Should a Borrower prove unable to on-lend its allocation within 1 year from loan approval and 6 months from the first loan draw down, or if there are breaches in complying with the terms of the credit facility after drawn, the Lender would be free to allocate the remaining amount to another Borrower.

Section 4.8 Revolving Fund

Upon repayment from an eligible beneficiary/SME, the Borrower undertakes to revolve the principal of such repayment for the same purpose of the project until the loan is totally paid to the Lender.

Article V

Borrower credit policies

Section 5.1 Sub-Loan regulations:

The lending policies and loan terms and conditions shall be in conformity with NBE regulations and guidelines.

Section 5.2 Sub-Loan delivery system:

- a. On an individual basis to eligible beneficiaries in line with the recommendations provided under the mandatory TA.
- b. For working capital finance, sub-projects should consist of investments in eligible sectors under the SME Finance Project and include manufacturing and agro-processing. For those SMEs receiving leasing finance, also tour and construction industry will be allowed in line with the priority areas for SMEs indicated in the Lease Financing Policy for SMEs (Code-Lender/03/2007).Tour and construction industry will not be eligible for working capital only.
- c. Sub-loans will be denominated in Ethiopian Birr (ETB).
- d. When applying for a sub-loan, SMEs that are lessee of DBE or CGFCs should avail their copy of the lease contract to the FI providing the working capital loan.
- e. Sub-loans will be made under a sub-loan agreement (SLA) between the Borrower and the beneficiary using Borrower's own loan agreement forms and including the standard provision reported in Appendix 3 of this agreement.
- f. Each sub-borrower will be issued a unique ID number by the Borrower, according to the SME Finance Project ID and registration guidelines, and only sub-borrowers with an ID number will be eligible to receive sub-loans.
- g. The Borrower will bear the full risk of the sub-loans.

Section 5.3 Interest rate:

Borrower is free to set lending Interest rate on all sub-loans in line following sound business principles and financial policies to cover financial, operating and loan cost and risk

Section 5.4 Sub-Loan maturities:

The sub-loan maturities will not be shorter than 1 year and frequency of installments shall be determined following Borrower best practices and linked to client's demand and project cash flows in accordance with terms and conditions under Borrower credit policy.

Section 5.5 Risk Management:

The Borrower introduces appropriate risk management strategies to portfolio quality.

Section 5.6 Institutional development:

Borrower will undertake, through application of a mandatory technical assistance, an institutional development plan to enhance its capacity to implement actions related to SME lending only upon certification of successful completion of an initial tranche of the technical assistance program. Borrower will be able to access the credit line, and subject to compliance with eligibility criteria under Section 3.1.

Section 5.7 Credit committees:

The Borrower will establish credit committees to approve sub-loans under SMECF (If there is no formal credit committee).

Section 5.8 Eligibility Criteria for Sub-borrowers:

The Borrower will serve private SMEs with a minimum 7 employees and maximum of 100 on a consolidated basis (for example and for the avoidance of doubt, a small subsidiary of a large (international) company will not be eligible for support) established and operating within the territory of the Republic of Ethiopia.

Working capital loans to SMEs will be limited to a maximum of birr 10 million per SME
All sub-borrowers must be issued an ID number, according to the SME Finance Project ID and registration guidelines.

Section 5.9 Borrower's Environmental and Social Management System:

- a. The Borrower will use all reasonable efforts to ensure that environmental and social performance of sub-loans is in compliance with the applicable environmental and social requirements as specified in section 5.10 through adequate implementation of the Borrower's ESMS, which must be acceptable to the Lender.
- b. The Borrower will provide an annual environmental and social performance report to the Lender within 90 days after the end of each calendar year.
- c. The Borrower will manage the working conditions of their workforce in accordance with the Borrower's ESMS.
- d. The Borrower will disclose a summary of ESMS on the Borrower's website. If a website does not exist the Borrower will permit in writing the Lender to disclose a summary of the Borrower's ESMS on Lender's website.

Section 5.10 Compliance of Sub-Loans with Applicable Environmental and Social Requirements:

- a. All sub-loans to be financed under the SMECF will comply with the relevant laws and regulations of the Federal Democratic Republic of Ethiopia, List of Excluded Activities (Appendix 2), and Borrower's ESMS which must be acceptable to the Lender.
- b. Within three days of occurrence, the sub-borrowers are required to notify the Borrower of any social, labor, health and safety, security or environmental incident, accident or circumstance having, or which could reasonably be expected to have, any material impact on compliance of a sub-loan with applicable environmental and social requirements

Section 5.11 Minimum consumer protection disclosure requirements:

The Borrower shall disclose prominently in each SLA the items in the table in Appendix 4. Each item shall be disclosed with equal prominence.

If there is any change to any of the items in Appendix 4 after signing of the SLA the Borrower shall provide prior written notice of the change to the sub-borrower. This notice shall include all of the items in Appendix 4 revised to reflect the change.

An SLA shall expressly disclose whether a sub-borrower who repays the principal early:

- a) Remains obliged to pay any interest calculated beyond the date of early repayment; or
- b) Is liable for any fee as a result of the early repayment.

The Borrower shall provide to each sub-borrower a copy of their SLA promptly after it is signed.

For the avoidance of doubt, this section is not intended to limit any other disclosure obligations that a Borrower may have under this Agreement or any law.

Article VI

Additional Conditions

Section 6.1 Due diligence and governance and remedy:

The PCB shall conduct its business operations and implement the SMECF with due diligence and efficiency and in conformity with sound technical, administrative, financial, economic, operational, environmental and social practices and good governance, including in accordance with the provisions of the IDA's Anti-Corruption Guidelines applicable to recipients of loan proceeds and the Operations Manual.

In the event the Borrower fails to perform any of its obligations under this agreement, the Lender has the right to suspend or terminate loan disbursements to the Borrower and/or the right to obtain a refund of all or any part of the amounts that has been disbursed.

Section 6.2 Prudential standards:

The Borrower shall comply with the prescribed prudential standards and regulations of NBE.

Section 6.3 Accounts:

The Borrower shall establish and maintain accounts according with International Auditing Standards and International Financial Reporting Standards, as acceptable to IDA. The Borrower will maintain a financial management system and prepare financial statements, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project as acceptable to IDA. The Borrower will have such financial statements audited by independent auditors acceptable to the IDA, and promptly furnish the audited statements to the IDA. Such auditing shall be done in accordance with consistently applied auditing standards that are acceptable to the IDA.

The Borrower will keep records of Sub-Loan Agreements financed with the proceeds under the Credit Facility Agreement including a copy of each Sub-Loan Agreement and all material documents relating to the Sub-project financed for the duration of the relevant Credit Facility Agreement.

Section 6.4 Separate credit facility accounts:

The Borrower will keep SME sub-loans funded under SMECF separate and distinct from the rest of the credit portfolios.

Section 6.5 Financial Statements & Audit Reports:

The Borrower shall submit its external audit report along with audited financial statements within six months of the closure of each financial year.

Section 6.6 Progress reports:

The Borrower shall submit the progress reports, in such detail and format as may be prescribed by the Lender, on or before the due date prescribed for submission of each report.

- a) The Borrower is required to submit a monthly disbursement report to Lender as per Appendix 1.1
- b) The Borrower is required to submit on quarterly basis performance indicators (Appendix 1.2), Key financial indicator (APPENDIX 1.3) and unaudited IFRs (within 30 days of quarter end)
- c) The independent external auditors of the Borrower will be required as part of the Borrower's annual statutory audit to provide a certified report to Lender regarding the accuracy of the SME loan balance information supplied by the Borrower to the Lender when determining the amount of its SME lending eligible for SMEFP financing.
- d) A summary report will be prepared quarterly by each Borrower and sent to

Lender. This report would comprise a list with the name of the sub-borrowers, the ID number issued to the sub-borrower, the TIN number of the sub-borrower, contact information of the sub-borrower, the amount given as sub-loans to the sub-borrower, the amount spent by the sub-borrower, the balance left unspent, and the nature of expenditure incurred by the sub-borrowers. Any sub-borrowers without client IDs would be deemed ineligible and non-reimbursable until the ID is provided.

Section 6.7 Management information systems:

The Borrower shall establish appropriate MIS adequate to generate the required information for performance monitoring, loan tracking and for timely preparation and submission of prescribed monitoring and progress reports.

Section 6.8 Access to records:

The Borrower shall provide access to its records and information to the authorized officials/experts/officers of PM, PEPE/EP, EDRI and of the IDA and facilitate a dialogue with its officials and clients for review and assessment of Borrower performance and credit facility implementation and Environmental and Social Management System of the Borrower

- a. Lender has a right to require a set of documentation for all sub-loans, in order to enable Lender to maintain all project records and make them available for ex-post review by the IDA or by external auditors as necessary.
- b. Allow the PMT of Lender, PEPE/EP, EDRI and the IDA, during loan supervision, have access to their books of accounts, upon reasonable notice, to do ex-post review of the portfolio under the loan.
- c. Allow DBE, PEPE/EP, EDRI and the IDA to conduct post loan reviews on regular basis and avail detail records and loan files of sub borrowers to facilitate capturing of additional information required to update SMEFP borrower database maintained at DBE, PEPE/EP, EDRI, IDA or any other organization appointed for this purpose which will be communicated to the borrower.
- d. Allow independent auditors have access to their books of accounts for auditing and compliance checks.

Section 6.9 Inspection and Cooperation:

The Borrower will cooperate, as needed, with the IDA and the MoFEC to inspect any Sub project, its operation and any relevant records and documents.

Section 6.10 Reporting by beneficiaries:

- a) The Borrower will be responsible of ensuring that each beneficiary of the sub loan maintains basic book of accounts showing how much has been received from the Borrower under this project, how much has been spent for the approved sub projects and the remaining unutilized balance. The Borrower will request that beneficiaries properly retain the relevant source documents such as receipts and invoices for the expenditure they incur. These records may be requested at any time by the authorized officials in PMT or the IDA to verify on a sample basis that the amount lent to the Borrowers was actually spent for the intended purposes.
- b) No additional accounting conditions will be requested to final beneficiaries of the SMEFP.

Section 6.11 Disbursement and Disbursement Schedule:

1) Disbursement

- a) The institution should clear all arrears balance, if any.
- b) The Borrower should present renewed license from NBE for the current year within 3 months after issue.
- c) In order to be eligible to receive disbursement from the designated account, the Borrower concerned must have subscribed to the terms of Small and Medium Enterprise Credit Facility by signing the Small and Medium Enterprise Credit Facility Agreement (SMECFA) with Lender.
- d) All facility balances with Borrower's that are not fully disbursed by being reported as not lent to sub-borrowers by the Closing Date of the project should be promptly refunded to Lender, which in turn will refund these to respectively the IDA and the EIB.
- e) In order to have access to the Credit Facility, the Borrower will be required to enter into Technical Cooperation Agreements (TCA) with Lender and with DFID-funded Private Enterprise Program for Ethiopia (PEPE)-EP, that is in charge of managing the TA Facility under component 1 of the SME Finance Project. Under such agreement, the Borrower will receive free of charge TA for a period deemed appropriate after the initial gap assessment for building the necessary capacity to undertake the project's assignment. The borrower should be certified by PEPE/EP of receiving basic TA to qualify for the first tranche of fund.
- f) The Agreement must be active and in force at the time of the first tranche disbursed under SME Finance Credit Facility.

2) Disbursement Schedule:

- a) Funds will be transferred by Lender from the designated account to the Borrower's account based on their actual monthly disbursements made to final beneficiaries in order to trigger the replenishment of the line of credit.
- b) The loan will be utilized for the intended purposes only.
- c) The Borrower will prepare and submit monthly progress reports on time for the proper utilization of the loan by the end of the following month and a copy of all financial and operational performances of the institution report to NBE on quarterly basis.
- d) The Borrower will maintain sound and acceptable financial information and be able to exhibit unqualified externally audited accounts.
- e) The Borrower will cooperate with the Lender Project Management Team (PMT) for any inspection and follow up activities.

Section 6.12 AML/CET compliance program:

Borrowers should have AML/CET compliance program (including the recommendations developed by FATF as required by EIB) acceptable to the Lender, as amended and supplemented from time to time.

Section 6.12 Procurement Procedure:

The sub-loan proceeds for acquiring goods, works, or services, as applicable, will be used in line with well-established private sector procurement methods or commercial practices acceptable to the IDA.

Section 6.13 Compliance with laws:

The Borrower shall comply in all respects with all laws and regulations to which it is subject.

Section 6.14 Integrity:

(a) Prohibited Conduct:

- (i) The Borrower shall not engage in (and shall not authorise or permit any person acting on its behalf to engage in) any Prohibited Conduct in connection with the Project, any tendering procedure for the Project, or any transaction contemplated by this Project Agreement or the Operations Manual;
- (ii) The Borrower undertakes to take such action as the Lender shall reasonably request to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct; and

(iii) The Borrower undertakes to ensure each Sub-Loan Agreements financed by the Credit Facility Agreement include the necessary provisions to enable the Lender to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct in connection with any Sub-project.

(b) **Sanctions:**

The Borrower shall not:

- (i) enter into a business relationship with any Sanctioned Person; or
- (ii) make any funds available to or for the benefit of, directly or indirectly, any Sanctioned Person.

(c) **Borrower's Management:**

The Borrower undertakes to take within a reasonable timeframe appropriate measures in respect of any member of its management bodies who:

- (i) becomes a Sanctioned Person; or
- (ii) is the subject of a final and irrevocable court ruling in connection with Prohibited Conduct perpetrated in the course of the exercise of their professional duties,

In order to ensure that such person is excluded from any activity in relation to the Credit Facility Agreement, any Sub-Loan Agreement or any Sub-project.

(d) **Information undertakings**

The Borrower shall inform the Lender immediately (which shall in turn inform immediately EIB) of:

- (i) any fact or event which results in (i) any member of its management bodies or (ii) any of its controlling entities being a Sanctioned Person or (iii) suggestive of the commission of any Prohibited Conduct;
- (ii) any measure taken by the Final Beneficiary pursuant to this Section 6.14 of this Credit Facility Agreement;
- (iii) any litigation, arbitration or administrative proceedings or investigation which is current, threatened or pending and which might if adversely determined result in any event or change of condition affecting the Borrower which (x) materially impairs the ability of the Borrower to perform and comply with its obligations under the Credit Facility Agreement or (y) materially impairs the financial condition (financial or otherwise), business, operations or property or prospects of the Borrower;
- (iv) to the extent permitted by law, any material litigation, arbitration, administrative proceedings or investigation carried out by a court, administration or similar public authority, which, to the best of its knowledge and belief, is current, imminent or pending against the Borrower or its controlling entities or members of the Borrower's management bodies in connection with Prohibited Conduct related to Credit Facility Agreement, any Sub-Loan Agreement or any Sub-project;

- (v) a genuine allegation or complaint with regard to any Prohibited Conduct related to the Project (including the Sub-project);
- (vi) should it become aware of any fact or information confirming or reasonably suggesting that (X) any Prohibited Conduct has occurred in connection with the Project (including the Sub-project), or (Y) any of the funds invested in the Project (including the Sub-project) was derived from an illicit origin; and
- (vii) upon becoming aware or otherwise having been informed about any information captured by Section C 6.3 (*Information undertakings*) below.

In addition, the Borrower shall timely provide the Lender with information in accordance with the reporting requirements in the Operations Manual and with such further information that the Lender may require with respect to any Sub-Loan Agreement or Sub-project.

Section 6.15 Representations:

The Borrower represents to the Lender:

- (i) that, to the best of its knowledge, no funds invested under any Sub-Loan Agreement are of illicit origin, including products of Money Laundering or linked to the Financing of Terrorism, as well as to promptly inform the Lender if at any time it becomes aware of the illicit origin of any such funds;
- (ii) neither the Borrower, its Board of Directors, other corporate bodies, managers any other person acting on its or their behalf or under its or their control has committed nor will commit (a) any Prohibited Conduct in connection with the Credit Facility Agreement, any Sub-Loan Agreement or any Sub-project or (b) any illegal activity related to the Financing of Terrorism or Money Laundering; and
- (iii) neither the Borrower, its Board of Directors, other corporate bodies, managers nor any other person acting on its or their behalf or under its or their control is a Sanctioned Person; and
- (iv) the Credit Facility Agreement, any Sub-Loan Agreement or any Sub-project (including without limitation, the negotiation, award and performance thereof) has not involved or given rise to, any Prohibited Conduct.

Section 6.16 Bank Account:

The Borrower shall request any disbursements from, and make any payments to, the Lender under the Credit Facility Agreement to a bank account in the name of the Borrower held with a duly authorized financial institution in the jurisdiction where the Borrower is incorporated or has its place of residence.

Section 6.17 Visits, Rights of Access and Investigations:

The Borrower shall:

- (i) allow persons designated by EIB, as well as persons designated by other institutions or bodies of the European Union when so required by the relevant mandatory provisions of European Union law:
 - (1) to visit the sites, installations and works comprising the Project and to conduct such checks as they may wish for purposes connected with this Project Agreement and the Operations Manual and the financing of the Project;
 - (2) to interview representatives of the Final Beneficiary and not obstruct contacts with any other person involved in or affected by the Project; and
 - (3) to review the Borrower's books and records in relation to the execution of the Project and to be able to take copies of related documents to the extent permitted by the law;
- (ii) to facilitate investigations by EIB and by the other competent European Union institutions or bodies in connection with any alleged or suspected occurrence of a Prohibited Conduct and shall provide EIB, or ensure that EIB is provided, with all necessary assistance for the purposes described in this Section B 6.8.
- (iii) to acknowledge that EIB may be obliged to communicate information relating to the Borrower and/or the Credit Facility Agreement to any competent institution or body of the European Union in accordance with the relevant mandatory provisions of European Union law and to undertake not to oppose to such disclosure.

Section 6.18 Due diligence procedures and technical assistance:

The Borrower shall:

1. Undertake to implement adequate due diligence procedures ensuring compliance with the eligibilities and requirements; and
2. Implement the recommendations from the technical assistance of an independent consultant regarding E&S risk assessment and management, application of AML procedures and credit risk management systems, as set out in the Operations Manual.

Section 6.19 Use of proceeds under the Credit Facility Agreement and availability of other funds

The Borrower shall:

1. Use the proceeds under any Credit Facility Agreement exclusively for the financing of Sub-Projects under Sub-Loan Agreements;

2. By way of sub-Loans not finance any activity listed in Appendix II (List of Excluded Activities) to the Operations Manual;
3. In consideration of the revolving nature of the funds made available to it by the Lender under the Credit Facility Agreement, undertake to reemploy the funds reimbursed by any Final Beneficiary (under any Sub-Loan Agreement) to extend new Sub-Loan Agreements for the direct financing of Sub-Projects; and
4. Prepay to the Lender the proceeds under any Credit Facility Agreement in case of non-compliance with the terms and conditions under this Section B.

Section 6.20EIB reporting requirements

The Lender shall provide DBE with the following project result indicators (cumulative realized values) at the end of the first allocation period:

1.	Name of financial institution				
2.	Type of financial institution (LC, CB, MFI, DBE direct lending)				
		<i>Leasing or working capital lending to SMEs</i>			
		<i>Total</i>	<i>Small firms with up to 19 employees</i>	<i>Medium-sized firms with up to 100 employees</i>	<i>Female-owned firms</i>
3.	Volume of financing to SMEs under the Credit Facility (Amount in EUR)				
3.1	Volume of financing for <i>manufacturing</i> (including agro-processing)				
3.2	Volume of financing for <i>construction</i>				
3.3	Volume of financing for <i>tour</i>				
3.4	Volume of financing with an initial maturity of two years or more				
3.5	Volume of financing for an amount of more than USD 50,000				
4.	Number of SMEs reached under the credit facility				
5.	Initial weighted average maturity of the financing to SMEs (in years)				
6.	Average number of employees at the SMEs				
7.	Portfolio quality under the credit facility (Percentage of non-performing loans)				

Section 6.21

The Borrower shall ensure that each Final Beneficiary complies with the following obligations (Section 6.21 to Section 6.23) and that such undertakings are duly inserted in each Sub-Loan Agreement as undertakings.

Section 6.22 Compliance with laws

Each Final Beneficiary shall comply in all respects with all laws and regulations to which it or its Sub-project is subject.

Section 6.23 Sub-Loan Agreements

Each Final Beneficiary shall:

- (a) **Project assets:** retain title to and possession of all or substantially all the assets comprising the Sub-project or, as appropriate, replace and renew such assets and maintain the Sub-project in substantially continuous operation in accordance with its original purpose;
- (b) **Purpose:** use the Sub-Loan exclusively for the purpose of carrying out the Sub-project;
- (c) **Maintenance:** maintain, repair, overhaul and renew all property forming part of the Sub-project as required to keep it in good working order and
- (d) **Insurance:** appropriately insure all works and assets forming part of the Sub-project in accordance with the most comprehensive relevant industry practice;
- (e) **Rights and Permits:** maintain in force all rights of way or use and all Authorisations necessary for the execution and operation of the Sub-project;
- (f) **Representation:** represent and declare to, the Borrower:
 - (i) any information or document given to the Borrower in connection with the relevant Sub-project is true and correct; and
 - (ii) represent it is in compliance with ESMS and to the best of its knowledge and belief (having made due and careful enquiry) no litigation, arbitral proceedings or administrative proceedings with respect to any component captured by ESMS has been commenced or is threatened against it.
- (g) **Integrity/Money Laundering:**

Undertakings

Prohibited Conduct:

- (i) not engage in (and shall not authorise or permit any Person acting on its behalf to engage in) any Prohibited Conduct in connection with the Sub-project, any tendering procedure for the Sub-project, or any transaction contemplated by the Sub-Loan Agreement;

- (ii) take such action as EIB or, as the case may be, the Lender or the Borrower shall reasonably request to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct.
- (iii) ensure that contracts financed by the Sub-Loan Agreement include the necessary provisions to enable the Final Beneficiary to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct in connection with the Sub-project.

Sanctions:

- (i) not enter into a business relationship with any Sanctioned Person; or
- (ii) not make any funds available to or for the benefit of, directly or indirectly, any Sanctioned Person;

(h) ***Management of eligible beneficiary/SME:***

take within a reasonable timeframe appropriate measures in respect of any person (any member of its management bodies) who becomes a Sanctioned Person or is the subject of a final and irrevocable court ruling in connection with Prohibited Conduct perpetrated in the course of the exercise of their professional duties, in order to ensure that such person is excluded from any eligible beneficiary/SME's activity in relation to the Sub-Loan Agreement and to the Sub-project.

(i) ***Information undertakings***

Inform the Borrower immediately (which shall inform immediately the Lender) of:

- (i) any fact or event which results in (i) any member of its management bodies or (ii) any of its controlling entities being a Sanctioned Person or (iii) suggestive of the commission of any Prohibited Conduct;
- (ii) any measure taken by the Final Beneficiary pursuant to this Section 6.23(g) (*Integrity/Money Laundering*) of this Credit Facility Agreement;
- (iii) any litigation, arbitration or administrative proceedings or investigation which is current, threatened or pending and which might if adversely determined result in any event or change of condition affecting the Final Beneficiary which (x) materially impairs the ability of the Final Beneficiary to perform and comply with its obligations under the Sub-Loan Agreement or (y) materially impairs the financial condition (financial or otherwise), business, operations or property or prospects of the Final Beneficiary;
- (ii) the extent permitted by law, any material litigation, arbitration, administrative proceedings or investigation carried out by a court, administration or similar public authority, which, to the best of its knowledge and belief, is current, imminent or pending against the Final Beneficiary or its controlling entities or members of the Final Beneficiary's management bodies in connection with Prohibited Conduct related to the related Sub-project and Sub-Loan Agreement;

- (v) a genuine allegation or complaint with regard to any Prohibited Conduct related to the relevant Sub-project; and
- (vi) should it become aware of any fact or information confirming or reasonably suggesting that (X) any Prohibited Conduct has occurred in connection with the relevant Sub-project, or (Y) any of the funds invested in relevant Sub-project was derived from an illicit origin.

In addition, each Final Beneficiary shall provide the Borrower in a timely manner with information to allow the Borrower to in turn provide the Lender with information in accordance with the reporting requirements in the Operations Manual and with such further information as the Lender or the Borrower may require with respect to any Sub-Loan Agreement or Sub-project.

(j) Representations

- (i) represent to the Borrower that, to the best of its knowledge, no funds invested in its share-capital or in the Sub-project by such Final Beneficiary are of illicit origin, including products of Money Laundering or linked to the Financing of Terrorism, as well as promptly inform the Borrower (which shall inform immediately the Lender) if at any time it becomes aware of the illicit origin of any such funds;
- (ii) neither the Final Beneficiary, its Board of Directors (or similar), other corporate bodies, managers nor any other person acting on its or their behalf or under its or their control has committed nor will commit (a) any Prohibited Conduct in connection with the Sub-project or any transaction contemplated by the Sub-Loan Agreement; or (b) any illegal activity related to the Financing of Terrorism or Money Laundering;
- (iii) neither the Final Beneficiary, its Board of Directors, other corporate bodies, managers nor any other person acting on its or their behalf or under its or their control is a Sanctioned Person; and
- (iv) the Sub-project (including without limitation, the negotiation, award and performance of any contract financed or to be financed by the Sub-Loan Agreement) has not involved or given rise to, any Prohibited Conduct;

(k) Bank Account: request any disbursements from, and make any payments under the Sub-Loan Agreement to a bank account in the name of such Final Beneficiary held with a duly authorised financial institution in the jurisdiction where such Final Beneficiary incorporated or has its place of residence or where the Sub-project is undertaken by such Final Beneficiary;

(l) Records: keep books and records of all financial transactions and expenditures in connection with the Sub-project; to ensure that its accounting records fully reflect the operations relating to the financing, execution and operation of the Sub-project;

(m) Visits, Rights of Access and Investigations:

- (i) allow persons designated by EIB, as well as persons designated by other institutions or bodies of the European Union when so required by the relevant mandatory provisions of European Union law:
 - (1) to visit the sites, installations and works comprising the Sub-project and to conduct such checks as they may wish for purposes connected with this Project Agreement and the Operations Manual and the financing of the Sub-project;
 - (2) to interview representatives of the Final Beneficiary and not obstruct contacts with any other person involved in or affected by the Project; and
 - (3) to review the Final Beneficiary's books and records in relation to the execution of the Sub-project and to be able to take copies of related documents to the extent permitted by the law;
- (ii) to facilitate investigations by the EIB and by the other competent European Union institutions or bodies in connection with any alleged or suspected occurrence of a Prohibited Conduct and shall provide the EIB, or ensure that the EIB is provided, with all necessary assistance for the purposes described in this Section 6.23 (m) (*Visits, Rights of Access and Investigations*).
- (iii) to acknowledge that EIB may be obliged to communicate information relating to the Final Beneficiary and/or the Sub-project to any competent institution or body of the European Union in accordance with the relevant mandatory provisions of European Union law and to undertake not to oppose to such disclosure.
- (n) Use of the funds:** use the loan received by it under the relevant Sub-Loan Agreement exclusively for the financing of the specified Sub-project;
- (o) Compliance with laws:** comply in all respects with all laws and regulations to which it or the Sub-project is subject;
- (p) Prepayment:** prepay to, as the case may be, the Lender or the Borrower, the Sub-Loan in case of non-compliance with the above terms and conditions; and
- (q)** the request of the Lender or the Borrower supply evidence to verify its fulfilment of the obligations listed under this Section C 6.3.

The Borrower undertakes to exercise such rights in respect of any Final Beneficiary at the specific request of EIB and to transmit to EIB forthwith any material information received in relation to such request.

Section 6.24

Definitions for the purposes of above:

“**Authorization**” means an authorization, permit, consent, approval, resolution, license, exemption, filing, notarization or registration.

“**Credit Facility Agreement**” means this SMECFA.

“Financing of Terrorism” means the provision or collection of funds, by any means, directly or indirectly, with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out any of the offences within the meaning of Articles 1 to 4 of the EU Council Framework Decision 2002/475/JHA of 13 June 2002 on combating terrorism.

“GAAP” means generally accepted accounting principles in the Federal Democratic Republic of Ethiopia, including IFRS.

“IFRS” means international accounting standards within the meaning of IAS Regulation 1606/2002 to the extent applicable to the relevant financial statements.

“Money Laundering” means:

- (a) the conversion or transfer of property, knowing that such property is derived from criminal activity or from an act of participation in such activity, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such activity to evade the legal consequences of his action;
- (b) the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from criminal activity or from an act of participation in such activity;
- (c) the acquisition, possession or use of property, knowing, at the time of receipt, that such property was derived from criminal activity or from an act of participation in such activity;
or
- (d) participation in, association to commit, attempts to commit and aiding, abetting, facilitating and counselling the commission of any of the actions mentioned in the foregoing points.

“Operations Manual” means the project implementation manual developed by the Federal Small and Medium Manufacturing Industries Development Agency.

“Participating Financial Institution” means a commercial bank, a microfinance institution or a financial leasing company operating in accordance with the applicable laws and regulations of the Federal Democratic Republic of Ethiopia, selected to participate in the Project and each as approved in writing by the EIB as an eligible counter-party under the Project.

“Prohibited Conduct” means any Financing of Terrorism, Money Laundering or Prohibited Practice.

“Prohibited Practice” means any:

- (a) Coercive Practice, meaning the impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of a party to influence improperly the actions of a party;
- (b) Collusive Practice, meaning an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
- (c) Corrupt Practice, meaning the offering, giving, receiving or soliciting, directly or indirectly, of anything of value by a party to influence improperly the actions of another party;
- (d) Fraudulent Practice, meaning any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party in order to obtain a financial or other benefit or to avoid an obligation; or
- (e) Obstructive Practice, meaning in relation to an investigation into a Coercive, Collusive, Corrupt or Fraudulent Practice in connection with the Project (including each Sub-project), (i) deliberately destroying, falsifying, altering or concealing of evidence material to the investigation; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (ii) acts intending to materially impede the exercise of the contractual rights of audit or access to information.

“Project” means the project to increasing access to finance for SMEs through the provision of leasing and loan finance (working capital) to SMEs but excludes any technical assistance. (For the avoidance of doubt, no technical assistance can be financed with the funds borrowed by the Federal Republic of Ethiopia under the relevant finance contract entered into with the EIB).

“Project Agreement” means the relevant project agreement entered into between the EIB and the Ethiopian Development Bank which together with the Operations Manual set out the terms and conditions under which the Project is to be implemented.

“Sanctioned Person” means any individual or entity listed in one or more Sanction Lists.

“Sanction Lists” means:

- (a) any economic, financial and trade restrictive measures and arms embargoes issued by the European Union pursuant to Chapter 2 of Title V of the Treaty on European Union as well as Article 215 of the Treaty on the Functioning of the European Union, as available in the official EU websites http://eeas.europa.eu/cfsp/sanctions/consol-list/index_en.htm and http://eeas.europa.eu/cfsp/sanctions/docs/measures_en.pdf, as amended and supplemented from time to time or on any successor page; or
- (b) any economic, financial and trade restrictive measures and arms embargoes issued by the United Nations Security Council pursuant to Article 41 of the UN Charter as available in

the official UN website <https://www.un.org/sc/suborg/en/sanctions/un-sc-consolidated-list>, as amended and supplemented from time to time or on any successor page.

“**Sub-Loan Agreement(s)**” means any SMECFA or any other agreement between a Participating Financial Institution and an eligible beneficiary/SME documenting a Sub-Loan.

“**Sub-project**” means a leasing finance or working capital project to be undertaken by a Final Beneficiary which has been selected and approved in conformity with the provisions of the Project Agreement and the Operations Manual.

Article VII

Suspension and other Remedies

Section 7.1 Suspension:

The Lender may suspend, in whole or in part, the loan disbursements to the Borrower if anyone of the following events are occurred and are continuing.

- a) When the Borrower defaults under sub sections 4.2, 4.3, 4.4 and 4.7 of Article IV.
- b) When the right of Lender to make withdrawals from the special account is suspended in accordance with the Subsidiary Financing Agreement.

Section 7.2 Termination:

The Lender shall terminate the agreement and preserve the right to claim the repayment of the principal outstanding, interest thereof and damages from the Borrower. If the event occurred is of such nature which could not be stopped or reversed,

Article VIII

Miscellaneous

Section 8.1 Costs:

The Borrower bears the costs required for the execution of this agreement.

Section 8.2 Responsibility:

The Borrower shall be fully and independently responsible for non-compliance with any of the provision of this agreement.

Section 8.3 Alterations & Amendments:

The Borrower shall not assign, amend, abrogate, or waive the SMECFA or any of its provisions without the written consent of the Borrower, the Lender, the IDA and the EIB.

Section 8.4 Application of Law:

The parties in the contract agree that the Ethiopian law governs the contract for all disputes arising from the agreement.

Section 8.5 Settlement of Disputes:

In case a dispute arises and failing amicable solution, the dissatisfied party will take its case to court and reserves the right to claim any appropriate costs and damages in addition to performance.

Section 8.6 Addresses:

Written communications only shall have a legal effect as between the parties to this agreement and communication made to the following address shall be deemed duly served.

Development Bank of Ethiopia
Addis Ababa
Ethiopia
P.O.Box 1900
Fax:- 0115150462
E-mail:- Lender_ecg@ethionet.et

Borrower
Addis Ababa
Ethiopia
P.O.BOX:
Fax:
E-mail:-.....

Article IX

Effectiveness

This agreement shall become effective from _____ day of the year _____.

In the presence of two witnesses, the parties have affixed their signature through their duly authorized representatives.

For Development Bank of Ethiopia
Name _____
Title _____
Signature _____
Date _____

Participating (Commercial) Bank
Name _____
Title _____
Signature _____
Date _____

Witness

Name
1. _____
2. _____
3. _____
4. _____

Signature

Appendix 1: Monitoring and Reporting Formats

Appendix 1.1: Monthly Disbursement Reporting Format by Borrower

S/N	District/ Zone/ Area	Branch	ID number of sub- borrower	Name of SMEs/ enterprise	Name of owner/ manager of the SME	TIN number	Address of the business						
							Region	City	Sub-city	woreda	kebele	House No.	Tel No.
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													
Total													

<i>Sr no</i>	<i>No. of owners</i>		<i>Educational Level (Primary, Secondary/ tertiary)</i>	<i>No of years of experience on the business</i>	<i>Year of business Start up</i>	<i>Sector of the business</i>	<i>Sub - sector of the business</i>	<i>Type of ownership(Sole/ PLC, other)</i>	<i>Starting Capital in Birr</i>	<i>Current total Asset</i>	<i>Current total capital</i>	<i>Annual earning in Birr</i>	<i>Number of employees</i>
	<i>Male</i>	<i>Female</i>											
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													

Sr. No	Amount of Loan requested	Amount of loan approved	Amount of Loan disbursed	Date of disbursement	<i>Loan tenure</i>	<i>Collateral type</i>	<i>Value of collateral pledged</i>	<i>New/ existing customer</i>	<i>Previous loan amount</i>	<i>Projected number of employees after the loan</i>	<i>Projected annual earning in Birr after the loan</i>
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											

Appendix 1.2 Quarterly Monitoring Report of Project’s Intermediate Indicators by Borrower (cumulative)

	Q-1	Q-2	Q-3	Q-4
Number of Loans disbursed to SMEs				
Amount of Loans disbursed to SMEs				
Number of Loans Repaid to Borrower				
Amount of Loans Repaid to the Borrower				
Amount of Loans Outstanding to Borrower				
Number of Loans Outstanding to Borrower				

Appendix 1.3: Quarterly Monitoring Report of Key Financial Indicators by Borrowers

	Q-1	Q-2	Q-3	Q-4
Regulatory Liquidity Ratio (as defined by NBE)				
Capital Adequacy Ratio (NBE)				
Single Credit Exposure Limit				
PAR 30 or NPL				

Appendix 2 List of Excluded Activities

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
2. Production or trade in weapons or munitions.¹
3. Gambling, casinos and equivalent enterprises.¹
4. Production or trade in alcoholic beverages (excluding beer, Tej and wine).¹
5. Mining/quarrying activities and agricultural activities.
6. Trade in wildlife or wildlife products regulated under Convention on International Trade in Endangered Species (CITES).
7. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where Lender considers the radioactive source to be trivial and/or adequately shielded.
8. Production or trade in or use of unbounded asbestos fibers.
9. Any activities involving significant degradation or conversion of critical habitats² and/or any activities in legally protected areas.
10. Activities damaging to national monuments and other critical cultural heritage.³
11. Drift net fishing in the marine environment using nets in excess of 2.5 km in length, electric shocks, or explosive materials.
12. Production or trade in wood or other forestry products other than from sustainably managed forests.⁶
13. Production or trade in pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (Borrower's) subject to international phase outs or bans.
14. Production or activities involving harmful or exploitative forms of forced labor⁴ harmful child labor.⁵
15. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (gasoline, kerosene, other petroleum products, textile dyes etc.).
16. Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by historically underserved traditional local communities.

17. Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement.⁷
18. Military or police equipment or infrastructures, and equipment or infrastructure which result in limiting people's individual rights and freedom (i.e. prisons, detention centers of any form) or in violation of human rights.
19. Activities targeting tobacco manufacturing, processing, or specialist tobacco distribution, and activities facilitating the use of tobacco (e.g. "smoking halls").¹
20. Activities involving live animals for experimental and scientific purposes.

Footnotes

1. This does not apply to enterprises that are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to an enterprise's primary operations.
2. Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitats of significant importance for required for critically endangered or endangered species as defined by the IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant concentrations of migratory species and /or congregator species; areas with unique assemblages of species or which are associated with key evolutionary processes. Primary Forests or forests of High Conservation Value shall be considered Critical Habitats.
3. Critical cultural heritage consists of (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; and (ii) legally protected cultural heritage areas, including those proposed by national governments for such designation.
4. Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.
5. Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.
6. Sustainable forest management may be demonstrated by the application of industry-specific good practices and available technologies. In some cases, it may be demonstrated by certification/ verification or progress towards certification /verification under a credible standards system.

7. Land acquisition and/or restrictions on land use may result in the physical displacement of people (involuntary resettlement) as well as their economic displacement (as loss of assets and/or means of livelihood, regardless of whether or not the affected people are physically displaced).

Appendix 3: Clause to be included in the Sub-Loan Agreement between the Borrower and final beneficiaries

(The text under this article reflects standard requirements for IDA credit lines)

The Beneficiary shall: (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the IDA, including in accordance with the provisions of the ESMS, the Anti-Corruption Guidelines applicable to recipients of loan proceeds and the Operations Manual; (B) provide, promptly as needed, the resources required for the purpose; (C) *sub-loan proceeds for acquiring goods, works, or services, as applicable, will be used in line with well-established private sector procurement methods or commercial practices acceptable to the IDA.*; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the IDA, the progress of the Sub-project and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) at the IDA's, PMT's or the Borrower's request, have such financial statements audited by independent auditors acceptable to the IDA, and promptly furnish the statements as so audited to the PMT and the IDA; (F) enable the PMT, the Borrower and the IDA to inspect the Sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the PMT, the Borrower, and the IDA all such information as the PMT, the Borrower, or the IDA shall reasonably request relating to the foregoing.

Appendix 4: Consumer protection SLA disclosures

Item	Information to be disclosed
Amount of principal	The total amount borrowed.
Amount disbursed	Actual amount disbursed (being the amount of principal less than any amounts withheld by the Borrower, such as for upfront fees or charges).
Interest rate	The annualized rate of interest payable under the SLA.
Total interest payable	The total amount of interest payable over the term of the loan, assuming that repayments are made according to the repayment schedule and there is no change to the interest rate.
Fees and charges	<p>A list of all fees and charges payable (or that may be payable if a particular event occurs, including on default) in relation to the loan. This list shall include:</p> <ul style="list-style-type: none"> a) the amount or rate of each fee or charge; and b) when each fee or charge is payable.
Total cost of loan	Total interest payable + total fees and charges payable, assuming that repayments are made according to the repayment schedule and there are no changes to the interest rate or fees and charges.
Repayment schedule	The amount of each repayment due under the SLA, the date on which it is due and the amount of principal that would remain outstanding after the repayment is made.
Total amount repayable	The total of all repayments required under the SLA.

B) CFA between DBE and Participating Microfinance Institutions

Small and Medium Enterprises Finance Project (SMEFP)
(IDA Credit No. 5793-ET)

Small and Medium Enterprise Credit Facility

Small and Medium Enterprise Credit Facility Agreement (SMECF)

Between

Development Bank of Ethiopia (DBE) and _____ **Participating Micro Finance Institution (PMFI)**

This Agreement is made and entered into by and between the **Development Bank of Ethiopia** (“the Lender”) and ----- Participating Micro Finance Institution (“the Borrower”).

Whereas the Government of Ethiopia has obtained (i) a loan in the principal amount of SDR 144,800,000 (USD \$ 200 million equivalent) from the International Development Association (IDA) through a Financing Agreement signed on June 15, 2016 and (ii) a loan in the principal amount of EUR 70 million from the European Investment Bank (EIB) through a Financing Agreement signed on June 16/18 2017, for the purpose of financing Small and Medium Enterprises Finance Project (SMEFP), which objective is to increase access to finance for eligible Small and Medium Enterprises in Ethiopia.

Whereas, Lender has entered into (i) a Subsidiary Financing Agreement with the Government of Ethiopia, through the Ministry of Finance and Economic Cooperation, on the 12th day of July 2016 (hereinafter called "the Subsidiary Agreement") pursuant to which Lender is designated to act as implementing agency for component 1 of SMEFP: financial service to Small and Medium Enterprise (Window 1: Leasing finance to SMEs through direct lending and whole sale through the Leasing Companies and Window 2 : SME lending whole sale through PFI's for working capital only) and (ii) a Project Agreement with EIB signed 27 June 2017 and setting out terms and conditions for the use of the funds made available the Lender as implementing agency.

Whereas the Borrower agrees to participate in Small and Medium Enterprise Credit Facility under Component 1 of SMEFP (SMECF); has applied for a loan of Birr _____ hereinafter called the “Loan¹¹”, to finance working capital requirement of Agro processing and Manufacturing sectors.

Now therefore on the premises above and on terms and conditions here in under, Lender and the Borrower agree as follows:

¹¹ Moreover, for those SMEs receiving leasing finance, or working capital linked to finance, and/or business development service also tour and construction will be allowed in line with the priority areas for SMEs. SMEs in the tour and construction industries will not be eligible to receive working capital only.

Article I

Section 1.1 - Definitions:

Unless the context provides otherwise, the several terms here in under shall have the following meanings:

- a) “AWPB” means the annual work plan and budget
- b) “AML/CFT” means Anti Money Laundering and Countering the Financing of Terrorism
- c) Borrower – shall mean Participating (Micro) financial institution
- d) DBE” means Development Bank of Ethiopia
- e) “DFID” means Department for International Development.
- f) “EDRI” means Ethiopian Development Research Institute
- g) “EIB” means European Investment Bank
- h) “EP” means Enterprise Partners
- i) “ESMS” means Environmental and Social Management System
- j) “FM” means Financial Management
- k) “IDA” means International Development Association
- l) “IFRs” means Interim Financial Reports
- m) “Lender” means Development Bank of Ethiopia
- n) “MIS” means Management Information Systems
- o) “MoFEC” means Ministry of Finance Economic Cooperation
- p) “NBE” means the National Bank of Ethiopia
- q) “Operations Manual” means manual that guides project implementation
- r) “PEPE” means Private Enterprise Program for Ethiopia
- s) “PMFI” means Participating Micro Finance Institution
- t) “PMT” means the Project Management Team within Lender
- u) “SLA” means Sub-loan Agreement
- v) “SMECF” means the Small and Medium Enterprise Credit Facility
- w) “SMECFA” means Small and Medium Enterprises Credit Facility Agreement

- x) “SMEFP” means Small and Medium Enterprises Finance Project
- y) “TA” means Technical Assistance
- z) “WB” means the IDA

Section 1.2 References:

Unless otherwise indicated, references to Articles and Sections refer to Articles and Sections of this Agreement.

Section 1.3 Headings:

Headings are given for the purpose of convenience and do not form an integral part of this Agreement.

Article II

Small and Medium Enterprise Credit Facility (SMECF)

Section 2.1 SMECF Implementation:

The Borrower declares its commitment to the goals and purposes of the SMECF and in furtherance of such goals and purposes, the Borrower shall carry out the Credit Facility substantially in accordance with provisions of this Agreement and such supplementary conditions as may be stipulated by Lender while approving AWPB.

Section 2.2 Eligibility for SMECF participation:

The Borrower shall be eligible for participation in the SMECF provided it ensures continued compliance with the eligibility criteria specified in Article III below and formally verified on annual basis.

Section 2.3 Annual Work Plan and Budget

- c) The Borrower shall prepare and submit to Lender for its approval annual work plan and budget for the upcoming credit facility no later than March 31 of each calendar year during the program implementation period.
- d) The Borrower shall carry out the implementation of the program in accordance with the annual work plan and budget

Section 2.4 SMECF Credit funds:

Lender shall on lend part of the credit funds made under the SMECF to the Borrower subject to the eligibility criteria in Article III below, or such criteria as may be amended from time to time, and in accordance with the provisions of this agreement.

Section 2.5 SMECF Credit facility duration:

The duration of the SMECF shall be aligned with the duration period of the SMEFP.

Article III

Eligibility Criteria for participation in the SMECF

Section 3.1The Borrower is selected based on the following criteria:

The criteria will apply throughout the period in which the borrower participates in the SMECF:

- (I) The Borrower must be duly licensed in Ethiopia and have at least three years of operation.
- (II) The Borrower must be and remain in compliance with applicable laws and regulations issued by the Ethiopian authorities, including the prudential and regulatory norms set forth and enforced by the NBE, as certified by independent external auditors on an annual basis and by quarterly returns provided by Borrower to NBE.
- (III) In case the initial eligibility of the Borrower fails to such a date that their year-end audits have been already completed and do not cover this requirement, then the Borrower would be required to submit a management letter in an acceptable format confirming their compliance with applicable laws and regulations issued by the Ethiopian authorities.
- (IV) The Borrower’s board of directors and managers must be considered “fit and proper” by the NBE. It must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile.
- (V) The Borrower must have well defined policies and written procedures for Management of all types of financial risks as defined in the Risk Management guidelines issued by NBE (i.e. credit, operational, liquidity and market risks).
- (VI) The capital adequacy ratio must be not less than that prescribed by the NBE prudential regulation which is currently 12% of risk weighted assets.
- (VII) Operational self-sufficiency: the operational self-sufficiency of the Borrower must be over 100% for the last three consecutive years.

(VIII) The Borrower must have adequate liquidity (e.g. shall maintain at all times liquidity ratio as defined by NBE of at least 20%).

(IX) The Borrower must have positive profitability for the last three years and acceptable risk profile.

(X) Participating Borrower must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions in-line with applicable NBE directive.

(XI) The Borrower must have adequate portfolio quality, with PAR \geq 90 of at most 5% of total gross loans.

(XII) The Borrower must have adequate internal audits and controls and risk management.

(XIII) The Borrower must have adequate management information system.

(XIV) The Borrower must agree to engage in individual lending to small and medium enterprises as defined under the SMEFP.

(XV) The Borrower must agree to and show capacity in terms of branch network, adequate staffing and readiness to make policy adjustments, in order to engage in individual lending to SMEs.

(XVI) The Borrower's must have in place an Environmental and Social Management System (ESMS) acceptable to and as required by the Lender to identify, asses and manage environmental and social risk and impacts associated with sub-loans.

(XVII) The Borrower must show commitment to give adequate focus on saving mobilization as a sustainable source of finance.

(XVIII) The Borrower must agree to undergo intensive mandatory technical assistance.

Article IV

On - Lending Terms and Condition

Section 4.1 The Loan:

The Lender agrees to extend Loan, which is denominated in Birr to the Borrower from time to time in accordance with the provisions of this agreement and as may be stipulated at the time of sanction and disbursement of loans.

The Lender, in accordance with the terms and conditions of this contract, agrees to lend to the Borrower a loan of **Birr -----**for the PMFI to provide sub-loans to finance working capital requirements of Small and Medium Enterprises to carry out sub-projects, as defined in Sections 5.8.

Section 4.2 Interest Rate:

The Borrower shall pay to Lender interest at the rate of (7%) per annum, or such other rate as may be revised from time to time on a mutual consensus basis, based on the interest rate structure of Ethiopian banking system, on the amount of the outstanding loan from time-to-time, payable semi – annually.

Interest shall accrue from the respective dates on which amounts are so withdrawn and shall be payable semi-annually on January 31st and July 31st, of each year commencing on _____.

Section 4.3 Loan maturities:

The Lender will on-lend credit facility funds to the Borrower for period of (5) years (with a maximum limit of five years including grace period). Grace periods can be up to one year. The Lender will determine the actual repayment period and installment schedule at the time of approval and disbursement respectively based on the requirements of the Borrower and its operational and financial performance.

Section 4.4 Repayments to Lender:

The Borrower's is required to repay interest and principal semi- Annually on January 31 and July31. The Borrower is required to make payments to Lender regardless of whether or not received payments from its borrowers. The interest due shall be calculated on a semi- Annual basis.

The Borrower undertakes to repay the principal amount of the Loan in ____equal semi-annual instalments each instalment, being Birr _____(in words) and the last instalment being (_____) payable on January 31 and July 31 of each year commencing on _____ and ending on _____.

Appendix 1: Loan Repayment schedule.

Year	Repayment Principal	Outstanding Balance
	-	
Sub-Total		
Year 1 January July		
Year 2 January July		
Year 3 January July		
Year 4 January July		
Grand-Total		-

Section 4.5 Loan repayment acceleration:

Lender reserves the right to modify the prescribed loan repayment schedule and accelerate repayment of the outstanding principal amount of the loan or recall the entire outstanding loan amount together with accrued interest if, there is significant deterioration in the quality of management and/or financial position of the Borrower or it has violated the conditions of loan sanction or if the Borrower's performance has fallen below the selection/ eligibility criterion.

Section 4.6 Penalty Interest:

In case of default or failure to repay the principal amount of the Loan and any other charges and costs, or failure to pay interest thereon, the interest rate applied from the date of such default or failure shall be increased by 3% (three per cent) for the default amount and the normal rate of interest is applicable after the default period amount is paid.

Section 4.7 Funds reallocation

Should a Borrower prove unable to on-lend its allocation within 1 year from loan approval and 6 months from the first loan draw down, or if there are breaches in complying with the terms of the credit facility after drawn, the Lender would be free to allocate the remaining amount to another Borrower.

Section 4.8 Revolving Fund

Upon repayment from an eligible beneficiary/SME, the Borrower undertakes to revolve the principal of such repayment for the same purpose of the project until the loan is totally paid to the Lender.

Article V

Borrower credit policies

Section 5.1 Sub-Loan regulations:

The lending policies and loan terms and conditions shall be in conformity with NBE regulations and guidelines.

Section 5.2 Sub-Loan delivery system:

- a. On an individual basis to eligible beneficiaries in line with the recommendations provided under the mandatory TA.
- b. For working capital finance, sub-projects should consist of investments in eligible sectors under the SME Finance Project and include manufacturing and agro-processing. For those SMEs receiving leasing finance, also tour and construction industry will be allowed in line with the priority areas for SMEs indicated in the Lease Financing Policy for SMEs (Code-Lender/03/2007).Tour and construction industry will not be eligible for working capital only.
- c. Sub-loans will be denominated in Ethiopian Birr (ETB).
- d. When applying for a sub-loan, SMEs that are lessee of DBE or CGFCs should avail their copy of the lease contract to the FI providing the working capital loan.
- e. Sub-loans will be made under a sub-loan agreement (SLA) between the Borrower and the beneficiary using Borrower's own loan agreement forms and including the standard provision reported in Appendix 3 of this agreement.
- f. Each sub-borrower will be issued a unique ID number by the Borrower, according to the SME Finance Project ID and registration guidelines, and only sub-borrowers with an ID number will be eligible to receive sub-loans.
- g. The Borrower will bear the full risk of the sub-loans.

Section 5.3 Interest rate:

Borrower is free to set lending Interest rate on all sub-loans in line following sound business principles and financial policies to cover financial, operating and loan cost and risk

Section 5.4 Sub-Loan maturities:

The sub-loan maturities will not be shorter than 1 year and frequency of installments shall be determined following Borrower best practices and linked to client's demand and project cash flows in accordance with terms and conditions under Borrower credit policy.

Section 5.5 Risk Management:

The Borrower introduces appropriate risk management strategies to portfolio quality.

Section 5.6 Institutional development:

Borrower will undertake, through application of a mandatory technical assistance, an institutional development plan to enhance its capacity to implement actions related to SME lending only upon certification of successful completion of an initial tranche of the technical assistance program. Borrower will be able to access the credit line, and subject to compliance with eligibility criteria under Section 3.1.

Section 5.7 Credit committees:

The Borrower will establish credit committees to approve sub-loans under SMECF (If there is no formal credit committee).

Section 5.8 Eligibility Criteria for Sub-borrowers:

The Borrower will serve private SMEs with a minimum 7 employees and maximum of 100 on a consolidated basis (for example and for the avoidance of doubt, a small subsidiary of a large (international) company will not be eligible for support) established and operating within the territory of the Republic of Ethiopia.

Working capital loans to SMEs will be limited to a maximum of birr 10 million per SME
All sub-borrowers must be issued an ID number, according to the SME Finance Project ID and registration guidelines.

Section 5.9 Borrower's Environmental and Social Management System:

- a. The Borrower will use all reasonable efforts to ensure that environmental and social performance of sub-loans is in compliance with the applicable environmental and social requirements as specified in section 5.10 through adequate implementation of the Borrower's ESMS, which must be acceptable to the Lender.
- b. The Borrower will provide an annual environmental and social performance report to the Lender within 90 days after the end of each calendar year.
- c. The Borrower will manage the working conditions of their workforce in

accordance with the Borrower's ESMS.

- d. The Borrower will disclose a summary of ESMS on the Borrower's website. If a website does not exist the Borrower will permit in writing the Lender to disclose a summary of the Borrower's ESMS on Lender's website.

Section 5.10 Compliance of Sub-Loans with Applicable Environmental and Social Requirements:

- a. All sub-loans to be financed under the SMECF will comply with the relevant laws and regulations of the Federal Democratic Republic of Ethiopia, List of Excluded Activities (Appendix 2), and Borrower's ESMS which must be acceptable to the Lender.
- b. Within three days of occurrence, the sub-borrowers are required to notify the Borrower of any social, labor, health and safety, security or environmental incident, accident or circumstance having, or which could reasonably be expected to have, any material impact on compliance of a sub-loan with applicable environmental and social requirements

Section 5.11 Minimum consumer protection disclosure requirements:

The Borrower shall disclose prominently in each SLA the items in the table in Appendix 4. Each item shall be disclosed with equal prominence.

If there is any change to any of the items in Appendix 4 after signing of the SLA the Borrower shall provide prior written notice of the change to the sub-borrower. This notice shall include all of the items in Appendix 4 revised to reflect the change.

An SLA shall expressly disclose whether a sub-borrower who repays the principal early:

- a) Remains obliged to pay any interest calculated beyond the date of early repayment; or
- b) Is liable for any fee as a result of the early repayment.

The Borrower shall provide to each sub-borrower a copy of their SLA promptly after it is signed.

For the avoidance of doubt, this section is not intended to limit any other disclosure obligations that a Borrower may have under this Agreement or any law.

Article VI

Additional Conditions

Section 6.1 Due diligence and governance and remedy:

The PMFI shall conduct its business operations and implement the SMECF with due diligence and efficiency and in conformity with sound technical, administrative, financial, economic, operational, environmental and social practices and good governance, including in accordance

with the provisions of the IDA's Anti-Corruption Guidelines applicable to recipients of loan proceeds and the Operations Manual.

In the event the Borrower fails to perform any of its obligations under this agreement, the Lender has the right to suspend or terminate loan disbursements to the Borrower and/or the right to obtain a refund of all or any part of the amounts that has been disbursed.

Section 6.2 Prudential standards:

The Borrower shall comply with the prescribed prudential standards and regulations of NBE.

Section 6.3 Accounts:

The Borrower shall establish and maintain accounts according with International Auditing Standards and International Financial Reporting Standards, as acceptable to IDA. The Borrower will maintain a financial management system and prepare financial statements, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project as acceptable to IDA. The Borrower will have such financial statements audited by independent auditors acceptable to the IDA, and promptly furnish the audited statements to the IDA. Such auditing shall be done in accordance with consistently applied auditing standards that are acceptable to the IDA.

The Borrower will keep records of Sub-Loan Agreements financed with the proceeds under the Credit Facility Agreement including a copy of each Sub-Loan Agreement and all material documents relating to the Sub-project financed for the duration of the relevant Credit Facility Agreement.

Section 6.4 Separate credit facility accounts:

The Borrower will keep SME sub-loans funded under SMECF separate and distinct from the rest of the credit portfolios.

Section 6.5 Financial Statements & Audit Reports:

The Borrower shall submit its external audit report along with audited financial statements within six months of the closure of each financial year.

Section 6.6 Progress reports:

The Borrower shall submit the progress reports, in such detail and format as may be prescribed by the Lender, on or before the due date prescribed for submission of each report.

- a) The Borrower is required to submit a monthly disbursement report to Lender as per Appendix 1.1
- b) The Borrower is required to submit on quarterly basis performance indicators (Appendix 1.2), Key financial indicator (APPENDIX 1.3) and unaudited IFRs (within 30 days of quarter end)

- c) The independent external auditors of the Borrower will be required as part of the Borrower's annual statutory audit to provide a certified report to Lender regarding the accuracy of the SME loan balance information supplied by the Borrower to the Lender when determining the amount of its SME lending eligible for SMEFP financing.
- d) A summary report will be prepared quarterly by each Borrower and sent to Lender. This report would comprise a list with the name of the sub-borrowers, the ID number issued to the sub-borrower, the TIN number of the sub-borrower, contact information of the sub-borrower, the amount given as sub-loans to the sub-borrower, the amount spent by the sub-borrower, the balance left unspent, and the nature of expenditure incurred by the sub-borrowers. Any sub-borrowers without client IDs would be deemed ineligible and non-reimbursable until the ID is provided.

Section 6.7 Management information systems:

The Borrower shall establish appropriate MIS adequate to generate the required information for performance monitoring, loan tracking and for timely preparation and submission of prescribed monitoring and progress reports.

Section 6.8 Access to records:

The Borrower shall provide access to its records and information to the authorized officials/experts/officers of PM, PEPE/EP, EDRI and of the IDA and facilitate a dialogue with its officials and clients for review and assessment of Borrower performance and credit facility implementation and Environmental and Social Management System of the Borrower

- a. Lender has a right to require a set of documentation for all sub-loans, in order to enable Lender to maintain all project records and make them available for ex-post review by the IDA or by external auditors as necessary.
- b. Allow the PMT of Lender, PEPE/EP, EDRI and the IDA, during loan supervision, have access to their books of accounts, upon reasonable notice, to do ex-post review of the portfolio under the loan.
- c. Allow DBE, PEPE/EP, EDRI and the IDA to conduct post loan reviews on regular basis and avail detail records and loan files of sub borrowers to facilitate capturing of additional information required to update SMEFP borrower database maintained at DBE, PEPE/EP, EDRI, IDA or any other organization appointed for this purpose which will be communicated to the borrower.
- d. Allow independent auditors have access to their books of accounts for auditing and compliance checks.

Section 6.9 Inspection and Cooperation:

The Borrower will cooperate, as needed, with the IDA and the MoFEC to inspect any Sub project, its operation and any relevant records and documents.

Section 6.10 Reporting by beneficiaries:

- a) The Borrower will be responsible of ensuring that each beneficiary of the sub loan maintains basic book of accounts showing how much has been received from the Borrower under this project, how much has been spent for the approved sub projects and the remaining unutilized balance. The Borrower will request that beneficiaries properly retain the relevant source documents such as receipts and invoices for the expenditure they incur. These records may be requested at any time by the authorized officials in PMT or the IDA to verify on a sample basis that the amount lent to the Borrowers was actually spent for the intended purposes.
- b) No additional accounting conditions will be requested to final beneficiaries of the SMEFP.

Section 6.11 Disbursement and Disbursement Schedule:

1) Disbursement

- a) The institution should clear all arrears balance, if any.
- b) The Borrower should present renewed license from NBE for the current year within 3 months after issue.
- c) In order to be eligible to receive disbursement from the designated account, the Borrower concerned must have subscribed to the terms of Small and Medium Enterprise Credit Facility by signing the Small and Medium Enterprise Credit Facility Agreement (SMECFCA) with Lender.
- d) All facility balances with Borrower's that are not fully disbursed by being reported as not lent to sub-borrowers by the Closing Date of the project should be promptly refunded to Lender, which in turn will refund these to respectively the IDA and the EIB.
- e) In order to have access to the Credit Facility, the Borrower will be required to enter into Technical Cooperation Agreements (TCA) with Lender and with DFID-funded Private Enterprise Program for Ethiopia (PEPE)-EP, that is in charge of managing the TA Facility under component 1 of the SME Finance Project. Under such agreement, the Borrower will receive free of charge TA for a period deemed appropriate after the initial gap assessment for building the necessary capacity to undertake the project's assignment. The borrower should be certified by PEPE/EP of receiving basic TA to qualify for the first tranche of fund.

- f) The Agreement must be active and in force at the time of the first tranche disbursed under SME Finance Credit Facility.

2) Disbursement Schedule:

- a) Funds will be transferred by Lender from the designated account to the Borrower's account based on their actual monthly disbursements made to final beneficiaries in order to trigger the replenishment of the line of credit.
- b) The loan will be utilized for the intended purposes only.
- c) The Borrower will prepare and submit monthly progress reports on time for the proper utilization of the loan by the end of the following month and a copy of all financial and operational performances of the institution report to NBE on quarterly basis.
- d) The Borrower will maintain sound and acceptable financial information and be able to exhibit unqualified externally audited accounts.
- e) The Borrower will cooperate with the Lender Project Management Team (PMT) for any inspection and follow up activities.

Section 6.12 AML/CET compliance program:

Borrowers should have AML/CET compliance program (including the recommendations developed by FATF as required by EIB) acceptable to the Lender, as amended and supplemented from time to time.

Section 6.12 Procurement Procedure:

The sub-loan proceeds for acquiring goods, works, or services, as applicable, will be used in line with well-established private sector procurement methods or commercial practices acceptable to the IDA.

Section 6.13 Compliance with laws:

The Borrower shall comply in all respects with all laws and regulations to which it is subject.

Section 6.14 Integrity:

(a) Prohibited Conduct:

- (i) the Borrower shall not engage in (and shall not authorise or permit any person acting on its behalf to engage in) any Prohibited Conduct in connection with the Project, any tendering procedure for the Project, or any transaction contemplated by this Project Agreement or the Operations Manual;
- (ii) the Borrower undertakes to take such action as the Lender shall reasonably request to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct; and

(iii) the Borrower undertakes to ensure each Sub-Loan Agreements financed by the Credit Facility Agreement include the necessary provisions to enable the Lender to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct in connection with any Sub-project.

(b) Sanctions:

the Borrower shall not:

- (i) enter into a business relationship with any Sanctioned Person; or
- (ii) make any funds available to or for the benefit of, directly or indirectly, any Sanctioned Person.

(c) Borrower's Management:

the Borrower undertakes to take within a reasonable timeframe appropriate measures in respect of any member of its management bodies who:

- (i) becomes a Sanctioned Person; or
- (ii) is the subject of a final and irrevocable court ruling in connection with Prohibited Conduct perpetrated in the course of the exercise of their professional duties,

in order to ensure that such person is excluded from any activity in relation to the Credit Facility Agreement, any Sub-Loan Agreement or any Sub-project.

(d) Information undertakings

The Borrower shall inform the Lender immediately (which shall in turn inform immediately EIB) of:

- (i) any fact or event which results in (i) any member of its management bodies or (ii) any of its controlling entities being a Sanctioned Person or (iii) suggestive of the commission of any Prohibited Conduct;
- (ii) any measure taken by the Final Beneficiary pursuant to this Section 6.14 of this Credit Facility Agreement;
- (iii) any litigation, arbitration or administrative proceedings or investigation which is current, threatened or pending and which might if adversely determined result in any event or change of condition affecting the Borrower which (x) materially impairs the ability of the Borrower to perform and comply with its obligations under the Credit Facility Agreement or (y) materially impairs the financial condition (financial or otherwise), business, operations or property or prospects of the Borrower;
- (iv) to the extent permitted by law, any material litigation, arbitration, administrative proceedings or investigation carried out by a court, administration or similar public authority, which, to the best of its knowledge and belief, is current, imminent or pending against the

Borrower or its controlling entities or members of the Borrower's management bodies in connection with Prohibited Conduct related to Credit Facility Agreement, any Sub-Loan Agreement or any Sub-project;

- (v) a genuine allegation or complaint with regard to any Prohibited Conduct related to the Project (including the Sub-project);
- (vi) should it become aware of any fact or information confirming or reasonably suggesting that (X) any Prohibited Conduct has occurred in connection with the Project (including the Sub-project), or (Y) any of the funds invested in the Project (including the Sub-project) was derived from an illicit origin; and
- (vii) upon becoming aware or otherwise having been informed about any information captured by Section C 6.3 (*Information undertakings*) below.

In addition, the Borrower shall timely provide the Lender with information in accordance with the reporting requirements in the Operations Manual and with such further information that the Lender may require with respect to any Sub-Loan Agreement or Sub-project.

Section 6.15 Representations:

The Borrower represents to the Lender:

- (i) that, to the best of its knowledge, no funds invested under any Sub-Loan Agreement are of illicit origin, including products of Money Laundering or linked to the Financing of Terrorism, as well as to promptly inform the Lender if at any time it becomes aware of the illicit origin of any such funds;
- (ii) neither the Borrower, its Board of Directors, other corporate bodies, managers any other person acting on its or their behalf or under its or their control has committed nor will commit (a) any Prohibited Conduct in connection with the Credit Facility Agreement, any Sub-Loan Agreement or any Sub-project or (b) any illegal activity related to the Financing of Terrorism or Money Laundering; and
- (iii) neither the Borrower, its Board of Directors, other corporate bodies, managers nor any other person acting on its or their behalf or under its or their control is a Sanctioned Person; and
- (iv) the Credit Facility Agreement, any Sub-Loan Agreement or any Sub-project (including without limitation, the negotiation, award and performance thereof) has not involved or given rise to, any Prohibited Conduct.

Section 6.16 Bank Account:

The Borrower shall request any disbursements from, and make any payments to, the Lender under the Credit Facility Agreement to a bank account in the name of the Borrower held with a duly authorized financial institution in the jurisdiction where the Borrower is incorporated or has its place of residence.

Section 6.17 Visits, Rights of Access and Investigations:

The Borrower shall:

- (i) allow persons designated by EIB, as well as persons designated by other institutions or bodies of the European Union when so required by the relevant mandatory provisions of European Union law:
 - (1) to visit the sites, installations and works comprising the Project and to conduct such checks as they may wish for purposes connected with this Project Agreement and the Operations Manual and the financing of the Project;
 - (2) to interview representatives of the Final Beneficiary and not obstruct contacts with any other person involved in or affected by the Project; and
 - (3) to review the Borrower's books and records in relation to the execution of the Project and to be able to take copies of related documents to the extent permitted by the law;
- (ii) to facilitate investigations by EIB and by the other competent European Union institutions or bodies in connection with any alleged or suspected occurrence of a Prohibited Conduct and shall provide EIB, or ensure that EIB is provided, with all necessary assistance for the purposes described in this Section B 6.8.
- (iii) to acknowledge that EIB may be obliged to communicate information relating to the Borrower and/or the Credit Facility Agreement to any competent institution or body of the European Union in accordance with the relevant mandatory provisions of European Union law and to undertake not to oppose to such disclosure.

Section 6.18 Due diligence procedures and technical assistance:

The Borrower shall:

1. Undertake to implement adequate due diligence procedures ensuring compliance with the eligibilities and requirements; and

2. Implement the recommendations from the technical assistance of an independent consultant regarding E&S risk assessment and management, application of AML procedures and credit risk management systems, as set out in the Operations Manual.

Section 6.19 Use of proceeds under the Credit Facility Agreement and availability of other funds

The Borrower shall:

1. Use the proceeds under any Credit Facility Agreement exclusively for the financing of Sub-Projects under Sub-Loan Agreements;
2. By way of sub-Loans not finance any activity listed in Appendix II (List of Excluded Activities) to the Operations Manual;
3. In consideration of the revolving nature of the funds made available to it by the Lender under the Credit Facility Agreement, undertake to reemploy the funds reimbursed by any Final Beneficiary (under any Sub-Loan Agreement) to extend new Sub-Loan Agreements for the direct financing of Sub-Projects; and
4. Prepay to the Lender the proceeds under any Credit Facility Agreement in case of non-compliance with the terms and conditions under this Section B.

Section 6.20EIB reporting requirements

The Lender shall provide DBE with the following project result indicators (cumulative realized values) at the end of the first allocation period:

1.	Name of financial institution				
2.	Type of financial institution (LC, CB, MFI, DBE direct lending)				
		<i>Leasing or working capital lending to SMEs</i>			
		<i>Total</i>	<i>Small firms with up to 19 employees</i>	<i>Medium-sized firms with up to 100 employees</i>	<i>Female-owned firms</i>
3.	Volume of financing to SMEs under the Credit Facility (Amount in EUR)				
3.1	Volume of financing for <i>manufacturing</i> (including agro-processing)				
3.2	Volume of financing for <i>construction</i>				
3.3	Volume of financing for <i>tour</i>				
3.4	Volume of financing with an initial maturity of two years or more				
3.5	Volume of financing for an amount of more than USD 50,000				
4.	Number of SMEs reached under the credit facility				
5.	Initial weighted average maturity of the financing to SMEs (in years)				
6.	Average number of employees at the SMEs				
7.	Portfolio quality under the credit facility (Percentage of non-performing loans)				

Section 6.21

The Borrower shall ensure that each Final Beneficiary complies with the following obligations (Section 6.21 to Section 6.23) and that such undertakings are duly inserted in each Sub-Loan Agreement as undertakings.

Section 6.22 Compliance with laws

Each Final Beneficiary shall comply in all respects with all laws and regulations to which it or its Sub-project is subject.

Section 6.23 Sub-Loan Agreements

Each Final Beneficiary shall:

- (a) **Project assets:** retain title to and possession of all or substantially all the assets comprising the Sub-project or, as appropriate, replace and renew such assets and maintain the Sub-project in substantially continuous operation in accordance with its original purpose;
- (b) **Purpose:** use the Sub-Loan exclusively for the purpose of carrying out the Sub-project;
- (c) **Maintenance:** maintain, repair, overhaul and renew all property forming part of the Sub-project as required to keep it in good working order and
- (d) **Insurance:** appropriately insure all works and assets forming part of the Sub-project in accordance with the most comprehensive relevant industry practice;
- (e) **Rights and Permits:** maintain in force all rights of way or use and all Authorisations necessary for the execution and operation of the Sub-project;
- (f) **Representation:** represent and declare to, the Borrower:
 - (i) any information or document given to the Borrower in connection with the relevant Sub-project is true and correct; and
 - (ii) represent it is in compliance with ESMS and to the best of its knowledge and belief (having made due and careful enquiry) no litigation, arbitral proceedings or administrative proceedings with respect to any component captured by ESMS has been commenced or is threatened against it.

(g) **Integrity/Money Laundering:**

Undertakings

Prohibited Conduct:

- (i) not engage in (and shall not authorise or permit any Person acting on its behalf to engage in) any Prohibited Conduct in connection with the Sub-project, any tendering procedure for the Sub-project, or any transaction contemplated by the Sub-Loan Agreement;
- (ii) take such action as EIB or, as the case may be, the Lender or the Borrower shall reasonably request to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct.
- (iii) ensure that contracts financed by the Sub-Loan Agreement include the necessary provisions to enable the Final Beneficiary to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct in connection with the Sub-project.

Sanctions:

- (i) not enter into a business relationship with any Sanctioned Person; or
- (ii) not make any funds available to or for the benefit of, directly or indirectly, any Sanctioned Person;

(h) ***Management of eligible beneficiary/SME:***

take within a reasonable timeframe appropriate measures in respect of any person (any member of its management bodies) who becomes a Sanctioned Person or is the subject of a final and irrevocable court ruling in connection with Prohibited Conduct perpetrated in the course of the exercise of their professional duties, in order to ensure that such person is excluded from any eligible beneficiary/SME's activity in relation to the Sub-Loan Agreement and to the Sub-project.

(i) **Information undertakings**

Inform the Borrower immediately (which shall inform immediately the Lender) of:

- (i) any fact or event which results in (i) any member of its management bodies or (ii) any of its controlling entities being a Sanctioned Person or (iii) suggestive of the commission of any Prohibited Conduct;

- (ii) any measure taken by the Final Beneficiary pursuant to this Section 6.23(g) (*Integrity/Money Laundering*) of this Credit Facility Agreement;
- (iii) any litigation, arbitration or administrative proceedings or investigation which is current, threatened or pending and which might if adversely determined result in any event or change of condition affecting the Final Beneficiary which (x) materially impairs the ability of the Final Beneficiary to perform and comply with its obligations under the Sub-Loan Agreement or (y) materially impairs the financial condition (financial or otherwise), business, operations or property or prospects of the Final Beneficiary;
- (iv) the extent permitted by law, any material litigation, arbitration, administrative proceedings or investigation carried out by a court, administration or similar public authority, which, to the best of its knowledge and belief, is current, imminent or pending against the Final Beneficiary or its controlling entities or members of the Final Beneficiary's management bodies in connection with Prohibited Conduct related to the related Sub-project and Sub-Loan Agreement;
- (v) a genuine allegation or complaint with regard to any Prohibited Conduct related to the relevant Sub-project; and
- (vi) should it become aware of any fact or information confirming or reasonably suggesting that (X) any Prohibited Conduct has occurred in connection with the relevant Sub-project, or (Y) any of the funds invested in relevant Sub-project was derived from an illicit origin.

In addition, each Final Beneficiary shall provide the Borrower in a timely manner with information to allow the Borrower to in turn provide the Lender with information in accordance with the reporting requirements in the Operations Manual and with such further information as the Lender or the Borrower may require with respect to any Sub-Loan Agreement or Sub-project.

(j) Representations

- (i) represent to the Borrower that, to the best of its knowledge, no funds invested in its share-capital or in the Sub-project by such Final Beneficiary are of illicit origin, including products of Money Laundering or linked to the Financing of Terrorism, as well as promptly inform the Borrower (which shall inform immediately the Lender) if at any time it becomes aware of the illicit origin of any such funds;
- (ii) neither the Final Beneficiary, its Board of Directors (or similar), other corporate bodies, managers nor any other person acting on its or their behalf or under its or their control has committed nor will commit (a)

any Prohibited Conduct in connection with the Sub-project or any transaction contemplated by the Sub-Loan Agreement; or (b) any illegal activity related to the Financing of Terrorism or Money Laundering;

- (iii) neither the Final Beneficiary, its Board of Directors, other corporate bodies, managers nor any other person acting on its or their behalf or under its or their control is a Sanctioned Person; and
 - (iv) the Sub-project (including without limitation, the negotiation, award and performance of any contract financed or to be financed by the Sub-Loan Agreement) has not involved or given rise to, any Prohibited Conduct;
- (k) **Bank Account:** request any disbursements from, and make any payments under the Sub-Loan Agreement to a bank account in the name of such Final Beneficiary held with a duly authorised financial institution in the jurisdiction where such Final Beneficiary incorporated or has its place of residence or where the Sub-project is undertaken by such Final Beneficiary;
- (l) **Records:** keep books and records of all financial transactions and expenditures in connection with the Sub-project; to ensure that its accounting records fully reflect the operations relating to the financing, execution and operation of the Sub-project;
- (m) **Visits, Rights of Access and Investigations:**
- (i) allow persons designated by EIB, as well as persons designated by other institutions or bodies of the European Union when so required by the relevant mandatory provisions of European Union law:
 - (1) to visit the sites, installations and works comprising the Sub-project and to conduct such checks as they may wish for purposes connected with this Project Agreement and the Operations Manual and the financing of the Sub-project;
 - (2) to interview representatives of the Final Beneficiary and not obstruct contacts with any other person involved in or affected by the Project; and
 - (3) to review the Final Beneficiary's books and records in relation to the execution of the Sub-project and to be able to take copies of related documents to the extent permitted by the law;
 - (ii) to facilitate investigations by the EIB and by the other competent European Union institutions or bodies in connection with any alleged or suspected occurrence of a Prohibited Conduct and shall provide the EIB, or ensure that the EIB is provided, with all necessary assistance for the

purposes described in this Section 6.23 (m) (*Visits, Rights of Access and Investigations*).

- (iii) to acknowledge that EIB may be obliged to communicate information relating to the Final Beneficiary and/or the Sub-project to any competent institution or body of the European Union in accordance with the relevant mandatory provisions of European Union law and to undertake not to oppose to such disclosure.
- (n) **Use of the funds:** use the loan received by it under the relevant Sub-Loan Agreement exclusively for the financing of the specified Sub-project;
- (o) **Compliance with laws:** comply in all respects with all laws and regulations to which it or the Sub-project is subject;
- (p) **Prepayment:** prepay to, as the case may be, the Lender or the Borrower, the Sub-Loan in case of non-compliance with the above terms and conditions; and
- (q) the request of the Lender or the Borrower supply evidence to verify its fulfilment of the obligations listed under this Section C 6.3.

The Borrower undertakes to exercise such rights in respect of any Final Beneficiary at the specific request of EIB and to transmit to EIB forthwith any material information received in relation to such request.

Section 6.24

Definitions for the purposes of above:

“**Authorization**” means an authorization, permit, consent, approval, resolution, license, exemption, filing, notarization or registration.

“**Credit Facility Agreement**” means this SMECFA.

“**Financing of Terrorism**” means the provision or collection of funds, by any means, directly or indirectly, with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out any of the offences within the meaning of Articles 1 to 4 of the EU Council Framework Decision 2002/475/JHA of 13 June 2002 on combating terrorism.

“**GAAP**” means generally accepted accounting principles in the Federal Democratic Republic of Ethiopia, including IFRS.

“**IFRS**” means international accounting standards within the meaning of IAS Regulation 1606/2002 to the extent applicable to the relevant financial statements.

“Money Laundering” means:

- (a) the conversion or transfer of property, knowing that such property is derived from criminal activity or from an act of participation in such activity, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such activity to evade the legal consequences of his action;
- (b) the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from criminal activity or from an act of participation in such activity;
- (c) the acquisition, possession or use of property, knowing, at the time of receipt, that such property was derived from criminal activity or from an act of participation in such activity;
or
- (d) participation in, association to commit, attempts to commit and aiding, abetting, facilitating and counselling the commission of any of the actions mentioned in the foregoing points.

“Operations Manual” means the project implementation manual developed by the Federal Small and Medium Industries Development Agency.

“Participating Financial Institution” means a commercial bank, a microfinance institution or a financial leasing company operating in accordance with the applicable laws and regulations of the Federal Democratic Republic of Ethiopia, selected to participate in the Project and each as approved in writing by the EIB as an eligible counter-party under the Project.

“Prohibited Conduct” means any Financing of Terrorism, Money Laundering or Prohibited Practice.

“Prohibited Practice” means any:

- i. Coercive Practice, meaning the impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of a party to influence improperly the actions of a party;
- ii. Collusive Practice, meaning an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
- iii. Corrupt Practice, meaning the offering, giving, receiving or soliciting, directly or indirectly, of anything of value by a party to influence improperly the actions of another party;
- iv. Fraudulent Practice, meaning any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party in order to obtain a financial or other benefit or to avoid an obligation; or

- v. **Obstructive Practice**, meaning in relation to an investigation into a Coercive, Collusive, Corrupt or Fraudulent Practice in connection with the Project (including each Sub-project), (i) deliberately destroying, falsifying, altering or concealing of evidence material to the investigation; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (ii) acts intending to materially impede the exercise of the contractual rights of audit or access to information.

“Project” means the project to increasing access to finance for SMEs through the provision of leasing and loan finance (working capital) to SMEs but excludes any technical assistance. (For the avoidance of doubt, no technical assistance can be financed with the funds borrowed by the Federal Republic of Ethiopia under the relevant finance contract entered into with the EIB).

“Project Agreement” means the relevant project agreement entered into between the EIB and the Ethiopian Development Bank which together with the Operations Manual set out the terms and conditions under which the Project is to be implemented.

“Sanctioned Person” means any individual or entity listed in one or more Sanction Lists.

“Sanction Lists” means:

- (a) any economic, financial and trade restrictive measures and arms embargoes issued by the European Union pursuant to Chapter 2 of Title V of the Treaty on European Union as well as Article 215 of the Treaty on the Functioning of the European Union, as available in the official EU websites http://eeas.europa.eu/cfsp/sanctions/consol-list/index_en.htm and http://eeas.europa.eu/cfsp/sanctions/docs/measures_en.pdf, as amended and supplemented from time to time or on any successor page; or
- (b) any economic, financial and trade restrictive measures and arms embargoes issued by the United Nations Security Council pursuant to Article 41 of the UN Charter as available in the official UN website <https://www.un.org/sc/suborg/en/sanctions/un-sc-consolidated-list>, as amended and supplemented from time to time or on any successor page.

“Sub-Loan Agreement(s)” means any SMECFA or any other agreement between a Participating Financial Institution and an eligible beneficiary/SME documenting a Sub-Loan.

“Sub-project” means a leasing finance or working capital project to be undertaken by a Final Beneficiary which has been selected and approved in conformity with the provisions of the Project Agreement and the Operations Manual.

Article VII

Suspension and other Remedies

Section 7.1 Suspension:

The Lender may suspend, in whole or in part, the loan disbursements to the Borrower if anyone of the following events are occurred and are continuing.

- a) When the Borrower defaults under sub sections 4.2, 4.3, 4.4 and 4.7 of Article IV.
- b) When the right of Lender to make withdrawals from the special account is suspended in accordance with the Subsidiary Financing Agreement.

Section 7.2 Termination:

The Lender shall terminate the agreement and preserve the right to claim the repayment of the principal outstanding, interest thereof and damages from the Borrower. If the event occurred is of such nature which could not be stopped or reversed,

Article VIII

Miscellaneous

Section 8.1 Costs:

The Borrower bears the costs required for the execution of this agreement.

Section 8.2 Responsibility:

The Borrower shall be fully and independently responsible for non-compliance with any of the provision of this agreement.

Section 8.3 Alterations & Amendments:

The Borrower shall not assign, amend, abrogate, or waive the SMECFA or any of its provisions without the written consent of the Borrower, the Lender, the IDA and the EIB.

Section 8.4 Application of Law:

The parties in the contract agree that the Ethiopian law governs the contract for all disputes arising from the agreement.

Section 8.5 Settlement of Disputes:

In case a dispute arises and failing amicable solution, the dissatisfied party will take its case to court and reserves the right to claim any appropriate costs and damages in addition to performance.

Section 8.6 Addresses:

Written communications only shall have a legal effect as between the parties to this agreement and communication made to the following address shall be deemed duly served.

Development Bank of Ethiopia
Addis Ababa
Ethiopia
P.O.Box 1900
Fax:- 0115150462
E-mail:- Lender_ecg@ethionet.et

Borrower
Addis Ababa
Ethiopia
P.O.BOX:
Fax:
E-mail:-.....

Article IX

Effectiveness

This agreement shall become effective from _____ day of the year _____.

In the presence of two witnesses, the parties have affixed their signature through their duly authorized representatives.

For Development Bank of Ethiopia

Participating Micro Finance Institution

Name _____

Name _____

Title _____

Title _____

Signature _____

Signature _____

Date _____

Date _____

Witness

Name

Signature

1. _____

2. _____

3. _____

4. _____

Appendix 1: Monitoring and Reporting Formats

Appendix 1.1: Monthly Disbursement Reporting Format by Borrower

S/N	District/ Zone/ Area	Branch	ID number of sub- borrower	Name of SMEs/ enterprise	Name of owner/ manager of the SME	TIN number	Address of the business						
							Region	City	Sub- city	woreda	kebele	House No.	Tel No.
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													
Total													

<i>Sr. no</i>	<i>No. of owners</i>		<i>Educational Level (Primary, Secondary/ tertiary)</i>	<i>No of years of experience on the business</i>	<i>Year of business Start up</i>	<i>Sector of the business</i>	<i>Sub - sector of the business</i>	<i>Type of ownership (Sole/ PLC, other)</i>	<i>Starting Capital in Birr</i>	<i>Current total Asset</i>	<i>Current total capital</i>	<i>Annual earning in Birr</i>	<i>Number of employees</i>
	<i>Male</i>	<i>Female</i>											
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													

Sr. No	Amount of Loan requested	Amount of loan approved	Amount of Loan disbursed	Date of disbursement	<i>Loan tenure</i>	<i>Collateral type</i>	<i>Value of collateral pledged</i>	<i>New/ existing customer</i>	<i>Previous loan amount</i>	<i>Projected number of employees after the loan</i>	<i>Projected annual earning in Birr after the loan</i>
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											

Appendix 1.2 Quarterly Monitoring Report of Project’s Intermediate Indicators by Borrower (cumulative)

	Q-1	Q-2	Q-3	Q-4
Number of Loans disbursed to SMEs				
Amount of Loans disbursed to SMEs				
Number of Loans Repaid to Borrower				
Amount of Loans Repaid to the Borrower				
Amount of Loans Outstanding to Borrower				
Number of Loans Outstanding to Borrower				

Appendix 1.3: Quarterly Monitoring Report of Key Financial Indicators by Borrowers

	Q-1	Q-2	Q-3	Q-4
Regulatory Liquidity Ratio (as defined by NBE)				
Capital Adequacy Ratio (NBE)				
Single Credit Exposure Limit				
PAR 30 or NPL				

Appendix 2 List of Excluded Activities

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
2. Production or trade in weapons or munitions.¹
3. Gambling, casinos and equivalent enterprises.¹
4. Production or trade in alcoholic beverages (excluding beer, Tej and wine).¹
5. Mining/quarrying activities and agricultural activities.
6. Trade in wildlife or wildlife products regulated under Convention on International Trade in Endangered Species (CITES).
7. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where Lender considers the radioactive source to be trivial and/or adequately shielded.
8. Production or trade in or use of unbounded asbestos fibers.
9. Any activities involving significant degradation or conversion of critical habitats² and/or any activities in legally protected areas.
10. Activities damaging to national monuments and other critical cultural heritage.³
11. Drift net fishing in the marine environment using nets in excess of 2.5 km in length, electric shocks, or explosive materials.
12. Production or trade in wood or other forestry products other than from sustainably managed forests.⁶
13. Production or trade in pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (Borrower's) subject to international phase outs or bans.
14. Production or activities involving harmful or exploitative forms of forced labor⁴ harmful child labor.⁵
15. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (gasoline, kerosene, other petroleum products, textile dyes etc.).
16. Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by historically underserved traditional local communities.

17. Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement.⁷
18. Military or police equipment or infrastructures, and equipment or infrastructure which result in limiting people's individual rights and freedom (i.e. prisons, detention centers of any form) or in violation of human rights.
19. Activities targeting tobacco manufacturing, processing, or specialist tobacco distribution, and activities facilitating the use of tobacco (e.g. "smoking halls").¹
20. Activities involving live animals for experimental and scientific purposes.

Footnotes

1. This does not apply to enterprises that are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to an enterprise's primary operations.
2. Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitats of significant importance for required for critically endangered or endangered species as defined by the IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant concentrations of migratory species and /or congregator species; areas with unique assemblages of species or which are associated with key evolutionary processes. Primary Forests or forests of High Conservation Value shall be considered Critical Habitats.
3. Critical cultural heritage consists of (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; and (ii) legally protected cultural heritage areas, including those proposed by national governments for such designation.
4. Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.
5. Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.
6. Sustainable forest management may be demonstrated by the application of industry-specific good practices and available technologies. In some cases, it may be demonstrated by certification/ verification or progress towards certification /verification under a credible standards system.

7. Land acquisition and/or restrictions on land use may result in the physical displacement of people (involuntary resettlement) as well as their economic displacement (as loss of assets and/or means of livelihood, regardless of whether or not the affected people are physically displaced).

Appendix 3: Clause to be included in the Sub-Loan Agreement between the Borrower and final beneficiaries

(The text under this article reflects standard requirements for IDA credit lines)

The Beneficiary shall: (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the IDA, including in accordance with the provisions of the ESMS, the Anti-Corruption Guidelines applicable to recipients of loan proceeds and the Operations Manual; (B) provide, promptly as needed, the resources required for the purpose; (C) *sub-loan proceeds for acquiring goods, works, or services, as applicable, will be used in line with well-established private sector procurement methods or commercial practices acceptable to the IDA.*; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the IDA, the progress of the Sub-project and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) at the IDA's, PMT's or the Borrower's request, have such financial statements audited by independent auditors acceptable to the IDA, and promptly furnish the statements as so audited to the PMT and the IDA; (F) enable the PMT, the Borrower and the IDA to inspect the Sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the PMT, the Borrower, and the IDA all such information as the PMT, the Borrower, or the IDA shall reasonably request relating to the foregoing.

Appendix 4: Consumer protection SLA disclosures

Item	Information to be disclosed
Amount of principal	The total amount borrowed.
Amount disbursed	Actual amount disbursed (being the amount of principal less than any amounts withheld by the Borrower, such as for upfront fees or charges).
Interest rate	The annualized rate of interest payable under the SLA.
Total interest payable	The total amount of interest payable over the term of the loan, assuming that repayments are made according to the repayment schedule and there is no change to the interest rate.
Fees and charges	<p>A list of all fees and charges payable (or that may be payable if a particular event occurs, including on default) in relation to the loan. This list shall include:</p> <ul style="list-style-type: none"> a) the amount or rate of each fee or charge; and b) when each fee or charge is payable.
Total cost of loan	Total interest payable + total fees and charges payable, assuming that repayments are made according to the repayment schedule and there are no changes to the interest rate or fees and charges.
Repayment schedule	The amount of each repayment due under the SLA, the date on which it is due and the amount of principal that would remain outstanding after the repayment is made.
Total amount repayable	The total of all repayments required under the SLA.

C) CFA between DBE and Participating Capital Goods Finance Companies

Small and Medium Enterprises Finance Project (SMEFP)
(IDA Credit No. 5793-ET)

Small and Medium Enterprise Credit Facility

Small and Medium Enterprise Credit Facility Agreement (SMECF)

Between

Development Bank of Ethiopia (DBE) and _____ Participating **Capital Good Finance Company (PCGFC)**

This Agreement is made and entered into by and between the **Development Bank of Ethiopia** (“the Lender”) and ----- Participating Capital Good Finance Company (“the Borrower”).

Whereas the Government of Ethiopia has obtained (i) a loan in the principal amount of SDR 144,800,000 (USD \$ 200 million equivalent) from the International Development Association (IDA) through a Financing Agreement signed on June 15, 2016 and (ii) a loan in the principal amount of EUR 70 million from the European Investment Bank(EIB) through a Financing Agreement signed on June 16/18 2017, for the purpose of financing Small and Medium Enterprises Finance Project (SMEFP), which objective is to increase access to finance for eligible Small and Medium Enterprises in Ethiopia.

Whereas, Lender has entered into (i) a Subsidiary Financing Agreement with the Government of Ethiopia, through the Ministry of Finance and Economic Cooperation, on the 12th day of July 2016 (hereinafter called "the Subsidiary Agreement") pursuant to which Lender is designated to act as implementing agency for component 1 of SMEFP: financial service to Small and Medium Enterprise (Window 1: Leasing finance to SMEs through direct lending and whole sale through the Leasing Companies and Window 2 : SME lending whole sale through PFI's for working capital only) and (ii) a Project Agreement with EIB signed 27 June 2017 and setting out terms and conditions for the use of the funds made available the Lender as implementing agency.

Whereas the Borrower agrees to participate in Small and Medium Enterprise Credit Facility under Component 1 of SMEFP (SMECF); has applied for a loan of Birr _____ hereinafter called the “Loan”, to provide lease finance requirement of Agro processing, Manufacturing, Tour and Construction sectors.

Now therefore on the premises above and on terms and conditions here in under, Lender and the Borrower agree as follows:

Article I

Section 1.1 - Definitions:

Unless the context provides otherwise, the several terms here in under shall have the following meanings:

- a) “AWPB” means the annual work plan and budget
- b) “AML/CFT” means Anti Money Laundering and Countering the Financing of Terrorism
- c) Borrower – shall mean Participating Capital Good Finance Company
- d) DBE” means Development Bank of Ethiopia
- e) “DFID” means Department for International Development.
- f) “EDRI” means Ethiopian Development Research Institute
- g) “EIB” means European Investment Bank
- h) “EP” means Enterprise Partners
- i) “ESMS” means Environmental and Social Management System
- j) “FM” means Financial Management
- k) “IDA” means International Development Association
- l) “IFRs” means Interim Financial Reports
- m) “Lender” means Development Bank of Ethiopia
- n) “MIS” means Management Information Systems
- o) “MoFEC” means Ministry of Finance Economic Cooperation
- p) “NBE” means the National Bank of Ethiopia
- q) “Operations Manual” means manual that guides project implementation
- r) “PEPE” means Private Enterprise Program for Ethiopia
- s) “PCGFC” means Participating Capital Good Finance Company
- t) “PMT” means the Project Management Team within Lender
- u) “SLA” means Sub-loan Agreement
- v) “SMECF” means the Small and Medium Enterprise Credit Facility
- w) “SMECFA” means Small and Medium Enterprises Credit Facility Agreement
- x) “SMEFP” means Small and Medium Enterprises Finance Project
- y) “TA” means Technical Assistance
- z) “WB” means the IDA

Section 1.2 References:

Unless otherwise indicated, references to Articles and Sections refer to Articles and Sections of this Agreement.

Section 1.3 Headings:

Headings are given for the purpose of convenience and do not form an integral part of this Agreement.

Article II

Small and Medium Enterprise Credit Facility (SMECF)

Section 2.1 SMECF Implementation:

The Borrower declares its commitment to the goals and purposes of the SMECF and in furtherance of such goals and purposes, the Borrower shall carry out the Credit Facility substantially in accordance with provisions of this Agreement and such supplementary conditions as may be stipulated by Lender while approving AWPB.

Section 2.2 Eligibility for SMECF participation:

The Borrower shall be eligible for participation in the SMECF provided it ensures continued compliance with the eligibility criteria specified in Article III below and formally verified on annual basis.

Section 2.3 Annual Work Plan and Budget

- a. The Borrower shall prepare and submit to Lender for its approval annual work plan and budget for the upcoming credit facility no later than March 31 of each calendar year during the program implementation period.
- b. The Borrower shall carry out the implementation of the program in accordance with the annual work plan and budget

Section 2.4 SMECF Credit funds:

Lender shall on lend part of the credit funds made under the SMECF to the Borrower subject to the eligibility criteria in Article III below, or such criteria as may be amended from time to time, and in accordance with the provisions of this agreement.

Section 2.5 SMECF Credit facility duration:

The duration of the SMECF shall be aligned with the duration period of the SMEFP.

Article III

Eligibility Criteria for participation in the SMECF

Section 3.1 The Borrower is selected based on the following criteria:

The criteria will apply throughout the period in which the borrower participates in the SMECF:

(I) The Borrower must at all time hold a Capital Goods Finance Business license duly issued by the National Bank of Ethiopia (NBE) and must have started operation for a minimum period of 12 months.

(II) The Borrower must be and remain in compliance with applicable laws and regulations issued by the Ethiopian authorities, including the prudential and regulatory norms set forth and enforced by the NBE, as certified by independent external auditors on an annual basis and by quarterly returns provided by Borrower to NBE.

(III) In case the initial eligibility of the Borrower fails to such a date that their year-end audits have been already completed and do not cover this requirement, then the Borrower would be required to submit a management letter in an acceptable format confirming their compliance with applicable laws and regulations issued by the Ethiopian authorities.

(IV) The Borrower's board of directors and managers must be considered "fit and proper" by the NBE. It must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile.

(V) The Borrower must at all times have the following comprehensive policies, procedure manuals, risk management guidelines, for management of all types of risks.

(VI) The capital adequacy ratio must be as prescribed by the NBE, measured as ratio of total capital to risk weighted asset must be over 10% at any one time.

(VII) The Borrower must have profitable or show adequate progress towards reaching profitability by submitting a copy of recent business plan showing how and when they intend to reach profitability.

(VIII) The Borrower must have adequate internal audits and controls for its specific risk profile.

(IX) The Borrower must have an acceptable leased assets classification and provisioning policy commensurate with their capital goods finance portfolio and credit risk exposure.

(X) Participating Borrower must have adequate portfolio quality, and non-performing capital goods finance portfolio must be less than 5% of the gross-capital goods finance portfolio.

(XI) The Borrower must have basic management information systems.

(XII) The Borrower must show commitment to deploy adequate staff and to make necessary policy adjustments including introduction of appropriate product for SMEs.

(XIII) The Borrower must diversify their source of funding and show commitment to build adequate capital base (through issuance of share and retained earnings) in order to ensure sustainable operation and service to the SMEs.

(XIV) The Borrower's must have in place an Environmental and Social Management System (ESMS) acceptable to and as required by the Lender to identify, asses and manage environmental and social risk and impacts associated with sub-loans.

(XV) The Borrower must agree to undergo intensive mandatory technical assistance, including on-site and on-the-job training.

Article IV

On - Lending Terms and Condition

Section 4.1 The Loan:

The Lender agrees to extend Loan, which is denominated in Birr to the Borrower from time to time in accordance with the provisions of this agreement and as may be stipulated at the time of sanction and disbursement of loans.

The Lender, in accordance with the terms and conditions of this contract, agrees to lend to the Borrower a loan of **Birr -----**for the PCGFC to provide sub-loans to provide lease finance requirements of Small and Medium Enterprises to carry out sub-projects, as defined in Sections 5.8.

Section 4.2 Interest Rate:

The Borrower shall pay to Lender interest at the rate of (7%) per annum, or such other rate as may be revised from time to time on a mutual consensus basis, based on the interest rate

structure of Ethiopian banking system, on the amount of the outstanding loan from time-to-time, payable semi – annually.

Interest shall accrue from the respective dates on which amounts are so withdrawn and shall be payable semi-annually on January 31st and July 31st, of each year commencing on _____.

Section 4.3 Loan maturities:

The Lender will on-lend credit facility funds to the Borrower for period of (5) years (with a maximum limit of five years including grace period). Grace periods can be up to one year. The Lender will determine the actual repayment period and installment schedule at the time of approval and disbursement respectively based on the requirements of the Borrower and its operational and financial performance.

Section 4.4 Repayments to Lender:

The Borrower's is required to repay interest and principal semi- Annually on January 31 and July31. The Borrower is required to make payments to Lender regardless of whether or not received payments from its borrowers. The interest due shall be calculated on a semi- Annual basis.

The Borrower undertakes to repay the principal amount of the Loan in ____equal semi-annual instalments each instalment, being Birr _____(in words) and the last instalment being (_____) payable on January 31 and July 31 of each year commencing on _____ and ending on _____

Appendix 1: Loan Repayment schedule.

Year	Repayment Principal	Outstanding Balance
	-	
Sub-Total		
Year 1 January July		
Year 2 January July		
Year 3 January July		
Year 4 January July		
Grand-Total		-

Section 4.5 Loan repayment acceleration:

Lender reserves the right to modify the prescribed loan repayment schedule and accelerate repayment of the outstanding principal amount of the loan or recall the entire outstanding loan amount together with accrued interest if, there is significant deterioration in the quality of management and/or financial position of the Borrower or it has violated the conditions of loan sanction or if the Borrower's performance has fallen below the selection/ eligibility criterion.

Section 4.6 Penalty Interest:

In case of default or failure to repay the principal amount of the Loan and any other charges and costs, or failure to pay interest thereon, the interest rate applied from the date of such default or failure shall be increased by 3% (three per cent) for the default amount and the normal rate of interest is applicable after the default period amount is paid.

Section 4.7 Funds reallocation

Should a Borrower prove unable to on-lend its allocation within 1 year from loan approval and 6 months from the first loan draw down, or if there are breaches in complying with the terms of the credit facility after drawn, the Lender would be free to allocate the remaining amount to another Borrower.

Section 4.8 Revolving Fund

Upon repayment from an eligible beneficiary/SME, the Borrower undertakes to revolve the principal of such repayment for the same purpose of the project until the loan is totally paid to the Lender.

Article V

Borrower credit policies

Section 5.1 Sub-Loan regulations:

The lending policies and loan terms and conditions shall be in conformity with NBE regulations and guidelines.

Section 5.2 Sub-Loan delivery system:

- a. On an individual basis to eligible beneficiaries in line with the recommendations provided under the mandatory TA.
- b. For lease finance, sub-projects should consist of investments in eligible sectors under the SME Finance Project and include manufacturing and agro-processing. For those SMEs receiving leasing finance, also tour and construction industry will be allowed in line with the priority areas for SMEs indicated in the Lease Financing Policy for SMEs (Code-Lender/03/2007). Tour and construction industry will not be eligible for working capital only.
- c. Sub-loans will be denominated in Ethiopian Birr (ETB).
- d. Sub-loans will be made under a sub-loan agreement (SLA) between the Borrower and the beneficiary using Borrower's own loan agreement forms and including the standard provision reported in Appendix 3 of this agreement.
- e. Each sub-borrower will be issued a unique ID number by the Borrower, according to the SME Finance Project ID and registration guidelines, and only sub-borrowers with an ID number will be eligible to receive sub-loans.
- f. The Borrower will bear the full risk of the sub-loans.

Section 5.3 Interest rate:

Borrower is free to set lending Interest rate on all sub-loans in line following sound business principles and financial policies to cover financial, operating and loan cost and risk

Section 5.4 Sub-Loan maturities:

The sub-loan maturities will not be shorter than 1 year and frequency of installments shall be determined following Borrower best practices and linked to client's demand and project cash flows in accordance with terms and conditions under Borrower credit policy.

Section 5.5 Risk Management:

The Borrower introduces appropriate risk management strategies to portfolio quality.

Section 5.6 Institutional development:

Borrower will undertake, through application of a mandatory technical assistance, an institutional development plan to enhance its capacity to implement actions related to SME lending only upon certification of successful completion of an initial tranche of the technical assistance program. Borrower will be able to access the credit line, and subject to compliance with eligibility criteria under Section 3.1.

Section 5.7 Credit committees:

The Borrower will establish credit committees to approve sub-loans under SMECF (If there is no formal credit committee).

Section 5.8 Eligibility Criteria for Sub-borrowers:

The Borrower will serve private SMEs with a minimum 7 employees and maximum of 100 on a consolidated basis (for example and for the avoidance of doubt, a small subsidiary of a large (international) company will not be eligible for support) established and operating within the territory of the Republic of Ethiopia.

Working capital Leasing financing to SMEs will be for amount Birr 1 million or less per SME
All sub-borrowers must be issued an ID number, according to the SME Finance Project ID and registration guidelines.

Section 5.9 Borrower's Environmental and Social Management System:

- a. The Borrower will use all reasonable efforts to ensure that environmental and social performance of sub-loans is in compliance with the applicable environmental and social requirements as specified in section 5.10 through adequate implementation of the Borrower's ESMS, which must be acceptable to the Lender.
- b. The Borrower will provide an annual environmental and social performance report to the Lender within 90 days after the end of each calendar year.
- c. The Borrower will manage the working conditions of their workforce in accordance with the Borrower's ESMS.
- d. The Borrower will disclose a summary of ESMS on the Borrower's website. If a website does not exist the Borrower will permit in writing the Lender to disclose a summary of the Borrower's ESMS on Lender's website.

Section 5.10 Compliance of Sub-Loans with Applicable Environmental and Social Requirements:

- a. All sub-loans to be financed under the SMECF will comply with the relevant laws and regulations of the Federal Democratic Republic of Ethiopia, List of Excluded Activities (Appendix 2), and Borrower's ESMS which must be acceptable to the Lender.

- b. Within three days of occurrence, the sub-borrowers are required to notify the Borrower of any social, labor, health and safety, security or environmental incident, accident or circumstance having, or which could reasonably be expected to have, any material impact on compliance of a sub-loan with applicable environmental and social requirements

Section 5.11 Minimum consumer protection disclosure requirements:

The Borrower shall disclose prominently in each SLA the items in the table in Appendix 4. Each item shall be disclosed with equal prominence.

If there is any change to any of the items in Appendix 4 after signing of the SLA the Borrower shall provide prior written notice of the change to the sub-borrower. This notice shall include all of the items in Appendix 4 revised to reflect the change.

An SLA shall expressly disclose whether a sub-borrower who repays the principal early:

- a) Remains obliged to pay any interest calculated beyond the date of early repayment; or
- b) Is liable for any fee as a result of the early repayment.

The Borrower shall provide to each sub-borrower a copy of their SLA promptly after it is signed.

For the avoidance of doubt, this section is not intended to limit any other disclosure obligations that a Borrower may have under this Agreement or any law.

Article VI

Additional Conditions

Section 6.1 Due diligence and governance and remedy:

The PCGFC shall conduct its business operations and implement the SMECF with due diligence and efficiency and in conformity with sound technical, administrative, financial, economic, operational, environmental and social practices and good governance, including in accordance with the provisions of the IDA's Anti-Corruption Guidelines applicable to recipients of loan proceeds and the Operations Manual.

In the event the Borrower fails to perform any of its obligations under this agreement, the Lender has the right to suspend or terminate loan disbursements to the Borrower and/or the right to obtain a refund of all or any part of the amounts that has been disbursed.

Section 6.2 Prudential standards:

The Borrower shall comply with the prescribed prudential standards and regulations of NBE.

Section 6.3 Accounts:

The Borrower shall establish and maintain accounts according with International Auditing Standards and International Financial Reporting Standards, as acceptable to IDA. The Borrower will maintain a financial management system and prepare financial statements, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project as acceptable to IDA. The Borrower will have such financial statements audited by independent auditors acceptable to the IDA, and promptly furnish the audited statements to the IDA. Such auditing shall be done in accordance with consistently applied auditing standards that are acceptable to the IDA.

The Borrower will keep records of Sub-Loan Agreements financed with the proceeds under the Credit Facility Agreement including a copy of each Sub-Loan Agreement and all material documents relating to the Sub-project financed for the duration of the relevant Credit Facility Agreement.

Section 6.4 Separate credit facility accounts:

The Borrower will keep SME sub-loans funded under SMECF separate and distinct from the rest of the credit portfolios.

Section 6.5 Financial Statements & Audit Reports:

The Borrower shall submit its external audit report along with audited financial statements within six months of the closure of each financial year.

Section 6.6 Progress reports:

The Borrower shall submit the progress reports, in such detail and format as may be prescribed by the Lender, on or before the due date prescribed for submission of each report.

- a) The Borrower is required to submit a monthly disbursement report to Lender as per Appendix 1.1
- b) The Borrower is required to submit on quarterly basis performance indicators (Appendix 1.2), Key financial indicator (APPENDIX 1.3) and unaudited IFRs (within 30 days of quarter end)
- c) The independent external auditors of the Borrower will be required as part of the Borrower's annual statutory audit to provide a certified report to Lender regarding the accuracy of the SME loan balance information supplied by the Borrower to the Lender when determining the amount of its SME lending eligible for SMEFP financing.
- d) A summary report will be prepared quarterly by each Borrower and sent to Lender. This report would comprise a list with the name of the sub-borrowers, the ID number issued to the sub-borrower, the TIN number of the sub-borrower, contact information of the sub-borrower, the amount given as sub-loans to the sub-borrower, the amount spent by the sub-borrower, the balance left unspent, and the nature of expenditure incurred by the sub-

borrowers. Any sub-borrowers without client IDs would be deemed ineligible and non-reimbursable until the ID is provided.

Section 6.7 Management information systems:

The Borrower shall establish appropriate MIS adequate to generate the required information for performance monitoring, loan tracking and for timely preparation and submission of prescribed monitoring and progress reports.

Section 6.8 Access to records:

The Borrower shall provide access to its records and information to the authorized officials/experts/officers of PMT, PEPE/EP, EDRI and of the IDA and facilitate a dialogue with its officials and clients for review and assessment of Borrower performance and credit facility implementation and Environmental and Social Management System of the Borrower

- a. Lender has a right to require a set of documentation for all sub-loans, in order to enable Lender to maintain all project records and make them available for ex-post review by the IDA or by external auditors as necessary.
- b. Allow the PMT of Lender, PEPE/EP, EDRI and the IDA, during loan supervision, have access to their books of accounts, upon reasonable notice, to do ex-post review of the portfolio under the loan.
- c. Allow DBE, PEPE/EP, EDRI and the IDA to conduct post loan reviews on regular basis and avail detail records and loan files of sub borrowers to facilitate capturing of additional information required to update SMEFP borrower database maintained at DBE, PEPE/EP, EDRI, IDA or any other organization appointed for this purpose which will be communicated to the borrower.
- d. Allow independent auditors have access to their books of accounts for auditing and compliance checks.

Section 6.9 Inspection and Cooperation:

The Borrower will cooperate, as needed, with the IDA and the MoFEC to inspect any Sub project, its operation and any relevant records and documents.

Section 6.10 Reporting by beneficiaries:

- a) The Borrower will be responsible of ensuring that each beneficiary of the sub loan maintains basic book of accounts showing how much has been received from the Borrower under this project, how much has been spent for the approved sub projects and the remaining unutilized balance. The Borrower will request that beneficiaries properly retain the relevant source documents such as receipts and invoices for the expenditure

they incur. These records may be requested at any time by the authorized officials in PMT or the IDA to verify on a sample basis that the amount lent to the Borrowers was actually spent for the intended purposes.

- b) No additional accounting conditions will be requested to final beneficiaries of the SMEFP.

Section 6.11 Disbursement and Disbursement Schedule:

1) Disbursement

- a. The institution should clear all arrears balance, if any.
- b. The Borrower should present renewed license from NBE for the current year within 3 months after issue.
- c. In order to be eligible to receive disbursement from the designated account, the Borrower concerned must have subscribed to the terms of Small and Medium Enterprise Credit Facility by signing the Small and Medium Enterprise Credit Facility Agreement (SMECFCA) with Lender.
- d. All facility balances with Borrower's that are not fully disbursed by being reported as not lent to sub-borrowers by the Closing Date of the project should be promptly refunded to Lender, which in turn will refund these to respectively the IDA and the EIB.
- e. In order to have access to the Credit Facility, the Borrower will be required to enter into Technical Cooperation Agreements (TCA) with Lender and with DFID-funded Private Enterprise Program for Ethiopia (PEPE)-EP, that is in charge of managing the TA Facility under component 1 of the SME Finance Project. Under such agreement, the Borrower will receive free of charge TA for a period deemed appropriate after the initial gap assessment for building the necessary capacity to undertake the project's assignment. The borrower should be certified by PEPE/EP of receiving basic TA to qualify for the first tranche of fund.
- f. The Agreement must be active and in force at the time of the first tranche disbursed under SME Finance Credit Facility.

2) Disbursement Schedule:

- a. Funds will be transferred by Lender from the designated account to the Borrower's account based on their actual monthly disbursements made to final beneficiaries in order to trigger the replenishment of the line of credit.

- b. The loan will be utilized for the intended purposes only.
- c. The Borrower will prepare and submit monthly progress reports on time for the proper utilization of the loan by the end of the following month and a copy of all financial and operational performances of the institution report to NBE on quarterly basis.
- d. The Borrower will maintain sound and acceptable financial information and be able to exhibit unqualified externally audited accounts.
- e. The Borrower will cooperate with the Lender Project Management Team (PMT) for any inspection and follow up activities.

Section 6.12 AML/CET compliance program:

Borrowers should have AML/CET compliance program (including the recommendations developed by FATF as required by EIB) acceptable to the Lender, as amended and supplemented from time to time.

Section 6.12 Procurement Procedure:

The sub-loan proceeds for acquiring goods, works, or services, as applicable, will be used in line with well-established private sector procurement methods or commercial practices acceptable to the IDA.

Section 6.13 Compliance with laws:

The Borrower shall comply in all respects with all laws and regulations to which it is subject.

Section 6.14 Integrity:

(a) Prohibited Conduct:

- (i) the Borrower shall not engage in (and shall not authorise or permit any person acting on its behalf to engage in) any Prohibited Conduct in connection with the Project, any tendering procedure for the Project, or any transaction contemplated by this Project Agreement or the Operations Manual;
- (ii) the Borrower undertakes to take such action as the Lender shall reasonably request to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct; and
- (iii) the Borrower undertakes to ensure each Sub-Loan Agreements financed by the Credit Facility Agreement include the necessary provisions to enable the Lender to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct in connection with any Sub-project.

(c) Sanctions:

the Borrower shall not:

- (i) enter into a business relationship with any Sanctioned Person; or

- (ii) make any funds available to or for the benefit of, directly or indirectly, any Sanctioned Person.

(d) Borrower's Management:

the Borrower undertakes to take within a reasonable timeframe appropriate measures in respect of any member of its management bodies who:

- (i) becomes a Sanctioned Person; or
- (ii) is the subject of a final and irrevocable court ruling in connection with Prohibited Conduct perpetrated in the course of the exercise of their professional duties,

in order to ensure that such person is excluded from any activity in relation to the Credit Facility Agreement, any Sub-Loan Agreement or any Sub-project.

(e) Information undertakings

The Borrower shall inform the Lender immediately (which shall in turn inform immediately EIB) of:

- (i) any fact or event which results in (i) any member of its management bodies or (ii) any of its controlling entities being a Sanctioned Person or (iii) suggestive of the commission of any Prohibited Conduct;
- (ii) any measure taken by the Final Beneficiary pursuant to this Section 6.14 of this Credit Facility Agreement;
- (iii) any litigation, arbitration or administrative proceedings or investigation which is current, threatened or pending and which might if adversely determined result in any event or change of condition affecting the Borrower which (x) materially impairs the ability of the Borrower to perform and comply with its obligations under the Credit Facility Agreement or (y) materially impairs the financial condition (financial or otherwise), business, operations or property or prospects of the Borrower;
- (iv) to the extent permitted by law, any material litigation, arbitration, administrative proceedings or investigation carried out by a court, administration or similar public authority, which, to the best of its knowledge and belief, is current, imminent or pending against the Borrower or its controlling entities or members of the Borrower's management bodies in connection with Prohibited Conduct related to Credit Facility Agreement, any Sub-Loan Agreement or any Sub-project;
- (v) a genuine allegation or complaint with regard to any Prohibited Conduct related to the Project (including the Sub-project);
- (vi) should it become aware of any fact or information confirming or reasonably suggesting that (X) any Prohibited Conduct has occurred in connection with the Project (including the Sub-project), or (Y) any of the funds invested in the Project (including the Sub-project) was derived from an illicit origin; and

- (vii) upon becoming aware or otherwise having been informed about any information captured by Section C 6.3 (*Information undertakings*) below.

In addition, the Borrower shall timely provide the Lender with information in accordance with the reporting requirements in the Operations Manual and with such further information that the Lender may require with respect to any Sub-Loan Agreement or Sub-project.

Section 6.15 Representations:

The Borrower represents to the Lender:

- (i) that, to the best of its knowledge, no funds invested under any Sub-Loan Agreement are of illicit origin, including products of Money Laundering or linked to the Financing of Terrorism, as well as to promptly inform the Lender if at any time it becomes aware of the illicit origin of any such funds;
- (ii) neither the Borrower, its Board of Directors, other corporate bodies, managers any other person acting on its or their behalf or under its or their control has committed nor will commit (a) any Prohibited Conduct in connection with the Credit Facility Agreement, any Sub-Loan Agreement or any Sub-project or (b) any illegal activity related to the Financing of Terrorism or Money Laundering; and
- (iii) neither the Borrower, its Board of Directors, other corporate bodies, managers nor any other person acting on its or their behalf or under its or their control is a Sanctioned Person; and
- (iv) the Credit Facility Agreement, any Sub-Loan Agreement or any Sub-project (including without limitation, the negotiation, award and performance thereof) has not involved or given rise to, any Prohibited Conduct.

Section 6.16 Bank Account:

The Borrower shall request any disbursements from, and make any payments to, the Lender under the Credit Facility Agreement to a bank account in the name of the Borrower held with a duly authorized financial institution in the jurisdiction where the Borrower is incorporated or has its place of residence.

Section 6.17 Visits, Rights of Access and Investigations:

The Borrower shall:

- (i) allow persons designated by EIB, as well as persons designated by other institutions or bodies of the European Union when so required by the relevant mandatory provisions of European Union law:
 - (1) to visit the sites, installations and works comprising the Project and to conduct such checks as they may wish for purposes connected with this Project Agreement and the Operations Manual and the financing of the Project;

- (2) to interview representatives of the Final Beneficiary and not obstruct contacts with any other person involved in or affected by the Project; and
 - (3) to review the Borrower's books and records in relation to the execution of the Project and to be able to take copies of related documents to the extent permitted by the law;
- (ii) to facilitate investigations by EIB and by the other competent European Union institutions or bodies in connection with any alleged or suspected occurrence of a Prohibited Conduct and shall provide EIB, or ensure that EIB is provided, with all necessary assistance for the purposes described in this Section B 6.8.
 - (iii) to acknowledge that EIB may be obliged to communicate information relating to the Borrower and/or the Credit Facility Agreement to any competent institution or body of the European Union in accordance with the relevant mandatory provisions of European Union law and to undertake not to oppose to such disclosure.

Section 6.18 Due diligence procedures and technical assistance:

The Borrower shall:

- 1) Undertake to implement adequate due diligence procedures ensuring compliance with the eligibilities and requirements; and
- 2) Implement the recommendations from the technical assistance of an independent consultant regarding E&S risk assessment and management, application of AML procedures and credit risk management systems, as set out in the Operations Manual.

Section 6.19 Use of proceeds under the Credit Facility Agreement and availability of other funds

The Borrower shall:

- 1) Use the proceeds under any Credit Facility Agreement exclusively for the financing of Sub-Projects under Sub-Loan Agreements;
- 2) By way of sub-Loans not finance any activity listed in Appendix II (List of Excluded Activities) to the Operations Manual;
- 3) In consideration of the revolving nature of the funds made available to it by the Lender under the Credit Facility Agreement, undertake to reemploy the funds reimbursed by any Final Beneficiary (under any Sub-Loan Agreement) to extend new Sub-Loan Agreements for the direct financing of Sub-Projects; and
- 4) Prepay to the Lender the proceeds under any Credit Facility Agreement in case of non-compliance with the terms and conditions under this Section B.

Section 6.20 EIB reporting requirements

The Lender shall provide DBE with the following project result indicators (cumulative realized values) at the end of the first allocation period:

1.	Name of financial institution				
2.	Type of financial institution (LC, CB, MFI, DBE direct lending)				
		<i>Leasing or working capital lending to SMEs</i>			
		<i>Total</i>	<i>Small firms with up to 19 employees</i>	<i>Medium-sized firms with up to 100 employees</i>	<i>Female-owned firms</i>
3.	Volume of financing to SMEs under the Credit Facility (Amount in EUR)				
3.1	Volume of financing for <i>manufacturing</i> (including agro-processing)				
3.2	Volume of financing for <i>construction</i>				
3.3	Volume of financing for <i>tour</i>				
3.4	Volume of financing with an initial maturity of two years or more				
3.5	Volume of financing for an amount of more than USD 50,000				
4.	Number of SMEs reached under the credit facility				
5.	Initial weighted average maturity of the financing to SMEs (in years)				
6.	Average number of employees at the SMEs				
7.	Portfolio quality under the credit facility (Percentage of non-performing loans)				

Section 6.21

The Borrower shall ensure that each Final Beneficiary complies with the following obligations (Section 6.21 to Section 6.23) and that such undertakings are duly inserted in each Sub-Loan Agreement as undertakings.

Section 6.22 Compliance with laws

Each Final Beneficiary shall comply in all respects with all laws and regulations to which it or its Sub-project is subject.

Section 6.23 Sub-Loan Agreements

Each Final Beneficiary shall:

- a) **Project assets:** retain title to and possession of all or substantially all the assets comprising the Sub-project or, as appropriate, replace and renew such assets and maintain the Sub-project in substantially continuous operation in accordance with its original purpose;
- b) **Purpose:** use the Sub-Loan exclusively for the purpose of carrying out the Sub-project;
- c) **Maintenance:** maintain, repair, overhaul and renew all property forming part of the Sub-project as required to keep it in good working order and
- d) **Insurance:** appropriately insure all works and assets forming part of the Sub-project in accordance with the most comprehensive relevant industry practice;
- e) **Rights and Permits:** maintain in force all rights of way or use and all Authorisations necessary for the execution and operation of the Sub-project;
- f) **Representation:** represent and declare to, the Borrower:
 - (i) any information or document given to the Borrower in connection with the relevant Sub-project is true and correct; and
 - (ii) represent it is in compliance with ESMS and to the best of its knowledge and belief (having made due and careful enquiry) no litigation, arbitral proceedings or administrative proceedings with respect to any component captured by ESMS has been commenced or is threatened against it.
- g) **Integrity/Money Laundering:**

Undertakings

Prohibited Conduct:

- (i) not engage in (and shall not authorise or permit any Person acting on its behalf to engage in) any Prohibited Conduct in connection with the Sub-project, any tendering procedure for the Sub-project, or any transaction contemplated by the Sub-Loan Agreement;

- (ii) take such action as EIB or, as the case may be, the Lender or the Borrower shall reasonably request to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct.
- (iv) ensure that contracts financed by the Sub-Loan Agreement include the necessary provisions to enable the Final Beneficiary to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct in connection with the Sub-project.

Sanctions:

- (i) not enter into a business relationship with any Sanctioned Person; or
- (ii) not make any funds available to or for the benefit of, directly or indirectly, any Sanctioned Person;

h) Management of eligible beneficiary/SME:

take within a reasonable timeframe appropriate measures in respect of any person (any member of its *management* bodies) who becomes a Sanctioned Person or is the subject of a final and irrevocable court ruling in connection with Prohibited Conduct perpetrated in the course of the exercise of their professional duties, in order to ensure that such person is excluded from any eligible beneficiary/SME's activity in relation to the Sub-Loan Agreement and to the Sub-project.

i) Information undertakings

Inform the Borrower immediately (which shall inform immediately the Lender) of:

- (i) any fact or event which results in (i) any member of its management bodies or (ii) any of its controlling entities being a Sanctioned Person or (iii) suggestive of the commission of any Prohibited Conduct;
- (ii) any measure taken by the Final Beneficiary pursuant to this Section 6.23(g) (*Integrity/Money Laundering*) of this Credit Facility Agreement;
- (iii) any litigation, arbitration or administrative proceedings or investigation which is current, threatened or pending and which might if adversely determined result in any event or change of condition affecting the Final Beneficiary which (x) materially impairs the ability of the Final Beneficiary to perform and comply with its obligations under the Sub-Loan Agreement or (y) materially impairs the financial condition (financial or otherwise), business, operations or property or prospects of the Final Beneficiary;
- (v) the extent permitted by law, any material litigation, arbitration, administrative proceedings or investigation carried out by a court, administration or similar public authority, which, to the best of its

knowledge and belief, is current, imminent or pending against the Final Beneficiary or its controlling entities or members of the Final Beneficiary's management bodies in connection with Prohibited Conduct related to the related Sub-project and Sub-Loan Agreement;

- (v) a genuine allegation or complaint with regard to any Prohibited Conduct related to the relevant Sub-project; and
- (vi) should it become aware of any fact or information confirming or reasonably suggesting that (X) any Prohibited Conduct has occurred in connection with the relevant Sub-project, or (Y) any of the funds invested in relevant Sub-project was derived from an illicit origin.

In addition, each Final Beneficiary shall provide the Borrower in a timely manner with information to allow the Borrower to in turn provide the Lender with information in accordance with the reporting requirements in the Operations Manual and with such further information as the Lender or the Borrower may require with respect to any Sub-Loan Agreement or Sub-project.

(j) **Representations**

- (i) represent to the Borrower that, to the best of its knowledge, no funds invested in its share-capital or in the Sub-project by such Final Beneficiary are of illicit origin, including products of Money Laundering or linked to the Financing of Terrorism, as well as promptly inform the Borrower (which shall inform immediately the Lender) if at any time it becomes aware of the illicit origin of any such funds;
 - (ii) neither the Final Beneficiary, its Board of Directors (or similar), other corporate bodies, managers nor any other person acting on its or their behalf or under its or their control has committed nor will commit (a) any Prohibited Conduct in connection with the Sub-project or any transaction contemplated by the Sub-Loan Agreement; or (b) any illegal activity related to the Financing of Terrorism or Money Laundering;
 - (iii) neither the Final Beneficiary, its Board of Directors, other corporate bodies, managers nor any other person acting on its or their behalf or under its or their control is a Sanctioned Person; and
 - (iv) the Sub-project (including without limitation, the negotiation, award and performance of any contract financed or to be financed by the Sub-Loan Agreement) has not involved or given rise to, any Prohibited Conduct;
- (k) **Bank Account:** request any disbursements from, and make any payments under the Sub-Loan Agreement to a bank account in the name of such Final Beneficiary held with a duly authorised financial institution in the

jurisdiction where such Final Beneficiary incorporated or has its place of residence or where the Sub-project is undertaken by such Final Beneficiary;

- (l) **Records:** keep books and records of all financial transactions and expenditures in connection with the Sub-project; to ensure that its accounting records fully reflect the operations relating to the financing, execution and operation of the Sub-project;
- (m) **Visits, Rights of Access and Investigations:**
 - (i) allow persons designated by EIB, as well as persons designated by other institutions or bodies of the European Union when so required by the relevant mandatory provisions of European Union law:
 - (1) to visit the sites, installations and works comprising the Sub-project and to conduct such checks as they may wish for purposes connected with this Project Agreement and the Operations Manual and the financing of the Sub-project;
 - (2) to interview representatives of the Final Beneficiary and not obstruct contacts with any other person involved in or affected by the Project; and
 - (3) to review the Final Beneficiary's books and records in relation to the execution of the Sub-project and to be able to take copies of related documents to the extent permitted by the law;
 - (ii) to facilitate investigations by the EIB and by the other competent European Union institutions or bodies in connection with any alleged or suspected occurrence of a Prohibited Conduct and shall provide the EIB, or ensure that the EIB is provided, with all necessary assistance for the purposes described in this Section 6.23 (m) (*Visits, Rights of Access and Investigations*).
 - (iii) to acknowledge that EIB may be obliged to communicate information relating to the Final Beneficiary and/or the Sub-project to any competent institution or body of the European Union in accordance with the relevant mandatory provisions of European Union law and to undertake not to oppose to such disclosure.
- (n) **Use of the funds:** use the loan received by it under the relevant Sub-Loan Agreement exclusively for the financing of the specified Sub-project;
- (o) **Compliance with laws:** comply in all respects with all laws and regulations to which it or the Sub-project is subject;

- (p) **Prepayment:** prepay to, as the case may be, the Lender or the Borrower, the Sub-Loan in case of non-compliance with the above terms and conditions; and
- (q) the request of the Lender or the Borrower supply evidence to verify its fulfilment of the obligations listed under this Section C 6.3.

The Borrower undertakes to exercise such rights in respect of any Final Beneficiary at the specific request of EIB and to transmit to EIB forthwith any material information received in relation to such request.

Section 6.24

Definitions for the purposes of above:

“**Authorization**” means an authorization, permit, consent, approval, resolution, license, exemption, filing, notarization or registration.

“**Credit Facility Agreement**” means this SMECFA.

“**Financing of Terrorism**” means the provision or collection of funds, by any means, directly or indirectly, with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out any of the offences within the meaning of Articles 1 to 4 of the EU Council Framework Decision 2002/475/JHA of 13 June 2002 on combating terrorism.

“**GAAP**” means generally accepted accounting principles in the Federal Democratic Republic of Ethiopia, including IFRS.

“**IFRS**” means international accounting standards within the meaning of IAS Regulation 1606/2002 to the extent applicable to the relevant financial statements.

“**Money Laundering**” means:

- (a) the conversion or transfer of property, knowing that such property is derived from criminal activity or from an act of participation in such activity, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such activity to evade the legal consequences of his action;
- (b) the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from criminal activity or from an act of participation in such activity;

- (c) the acquisition, possession or use of property, knowing, at the time of receipt, that such property was derived from criminal activity or from an act of participation in such activity; or
- (d) participation in, association to commit, attempts to commit and aiding, abetting, facilitating and counselling the commission of any of the actions mentioned in the foregoing points.

“Operations Manual” means the project implementation manual developed by the Federal Small and Medium Industries Development Agency.

“Participating Financial Institution” means a commercial bank, a microfinance institution or a financial leasing company operating in accordance with the applicable laws and regulations of the Federal Democratic Republic of Ethiopia, selected to participate in the Project and each as approved in writing by the EIB as an eligible counter-party under the Project.

“Prohibited Conduct” means any Financing of Terrorism, Money Laundering or Prohibited Practice.

“Prohibited Practice” means any:

- a) Coercive Practice, meaning the impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of a party to influence improperly the actions of a party;
- b) Collusive Practice, meaning an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
- c) Corrupt Practice, meaning the offering, giving, receiving or soliciting, directly or indirectly, of anything of value by a party to influence improperly the actions of another party;
- d) Fraudulent Practice, meaning any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party in order to obtain a financial or other benefit or to avoid an obligation; or
- e) Obstructive Practice, meaning in relation to an investigation into a Coercive, Collusive, Corrupt or Fraudulent Practice in connection with the Project (including each Sub-project), (i) deliberately destroying, falsifying, altering or concealing of evidence material to the investigation; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (ii) acts intending to materially impede the exercise of the contractual rights of audit or access to information.

“**Project**” means the project to increasing access to finance for SMEs through the provision of leasing and loan finance (working capital) to SMEs but excludes any technical assistance. (For the avoidance of doubt, no technical assistance can be financed with the funds borrowed by the Federal Republic of Ethiopia under the relevant finance contract entered into with the EIB).

“**Project Agreement**” means the relevant project agreement entered into between the EIB and the Ethiopian Development Bank which together with the Operations Manual set out the terms and conditions under which the Project is to be implemented.

“**Sanctioned Person**” means any individual or entity listed in one or more Sanction Lists.

“**Sanction Lists**” means:

- (a) any economic, financial and trade restrictive measures and arms embargoes issued by the European Union pursuant to Chapter 2 of Title V of the Treaty on European Union as well as Article 215 of the Treaty on the Functioning of the European Union, as available in the official EU websites http://eeas.europa.eu/cfsp/sanctions/consol-list/index_en.htm and http://eeas.europa.eu/cfsp/sanctions/docs/measures_en.pdf, as amended and supplemented from time to time or on any successor page; or
- (b) any economic, financial and trade restrictive measures and arms embargoes issued by the United Nations Security Council pursuant to Article 41 of the UN Charter as available in the official UN website <https://www.un.org/sc/suborg/en/sanctions/un-sc-consolidated-list>, as amended and supplemented from time to time or on any successor page.

“**Sub-Loan Agreement(s)**” means any SMECFA or any other agreement between a Participating Financial Institution and an eligible beneficiary/SME documenting a Sub-Loan.

“**Sub-project**” means a leasing finance or working capital project to be undertaken by a Final Beneficiary which has been selected and approved in conformity with the provisions of the Project Agreement and the Operations Manual.

Article VII

Suspension and other Remedies

Section 7.1 Suspension:

The Lender may suspend, in whole or in part, the loan disbursements to the Borrower if anyone of the following events are occurred and are continuing.

- a. When the Borrower defaults under sub sections 4.2, 4.3, 4.4 and 4.7 of Article IV.
- b. When the right of Lender to make withdrawals from the special account is suspended in accordance with the Subsidiary Financing Agreement.

Section 7.2 Termination:

The Lender shall terminate the agreement and preserve the right to claim the repayment of the principal outstanding, interest thereof and damages from the Borrower. If the event occurred is of such nature which could not be stopped or reversed,

Article VIII

Miscellaneous

Section 8.1 Costs:

The Borrower bears the costs required for the execution of this agreement.

Section 8.2 Responsibility:

The Borrower shall be fully and independently responsible for non-compliance with any of the provision of this agreement.

Section 8.3 Alterations & Amendments:

The Borrower shall not assign, amend, abrogate, or waive the SMECFA or any of its provisions without the written consent of the Borrower, the Lender, the IDA and the EIB.

Section 8.4 Application of Law:

The parties in the contract agree that the Ethiopian law governs the contract for all disputes arising from the agreement.

Section 8.5 Settlement of Disputes:

In case a dispute arises and failing amicable solution, the dissatisfied party will take its case to court and reserves the right to claim any appropriate costs and damages in addition to performance.

Section 8.6 Addresses:

Written communications only shall have a legal effect as between the parties to this agreement and communication made to the following address shall be deemed duly served.

Development Bank of Ethiopia
Addis Ababa
Ethiopia
P.O.Box 1900
Fax:- 0115150462
E-mail:- Lender_ecg@ethionet.et

Borrower
Addis Ababa
Ethiopia
P.O.BOX:
Fax:
E-mail:-.....

Article IX

Effectiveness

This agreement shall become effective from _____ day of the year _____.

In the presence of two witnesses, the parties have affixed their signature through their duly authorized representatives.

For Development Bank of Ethiopia

Participating Capital Good Finance Company

Name _____

Name _____

Title _____

Title _____

Signature _____

Signature _____

Date _____

Date _____

Witness

Name

Signature

1. _____

2. _____

3. _____

4. _____

Appendix 1: Monitoring and Reporting Formats

Appendix 1.1: Monthly Disbursement Reporting Format by Borrower

S/N	District/ Zone/ Area	Branch name	ID number of sub- borrower	Name of SMEs/ enterprise	Name of owner/ manager of the SME	TIN number	Address of the business						
							Region	City	Sub- city	woreda	kebele	House No.	Tel No.
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													
Total													

Sr. No	No. of owners		Educational Level (Primary, Secondary/ tertiary)	No of years of experience on the business	Sector of the business	Sub - sector of the business	Type of ownership(Sole/ PLC/ Others)	Year of business Start up	Starting Capital in Birr	Current total asset	Current total capital	Annual earning in Birr	Number of employees
	Male	Female											
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													

Sr. No	Amount of Lease requested	Amount of lease approved	Amount of Lease disbursed	Date of disbursement	<i>Location of the supplier</i>	<i>Type of Equipment purchased</i>	<i>Grace Period</i>	<i>Lease tenure</i>	<i>Status of the SME (Start-ups/ Existing)</i>	<i>Projected number of employees after the lease</i>	<i>Projected annual earning in Birr (after the lease)</i>
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											

Appendix 1.2 Quarterly Monitoring Report of Project’s Intermediate Indicators by Borrower (cumulative)

	Q-1	Q-2	Q-3	Q-4
Number of Loans disbursed to SMEs				
Amount of Loans disbursed to SMEs				
Number of Loans Repaid to Borrower				
Amount of Loans Repaid to the Borrower				
Amount of Loans Outstanding to Borrower				
Number of Loans Outstanding to Borrower				

Appendix 1.3: Quarterly Monitoring Report of Key Financial Indicators by Borrowers

	Q-1	Q-2	Q-3	Q-4
Regulatory Liquidity Ratio (as defined by NBE)				
Capital Adequacy Ratio (NBE)				
Single Credit Exposure Limit				
PAR 30 or NPL				

Appendix 2 List of Excluded Activities

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
2. Production or trade in weapons or munitions.¹
3. Gambling, casinos and equivalent enterprises.¹
4. Production or trade in alcoholic beverages (excluding beer, Tej and wine).¹
5. Mining/quarrying activities and agricultural activities.
6. Trade in wildlife or wildlife products regulated under Convention on International Trade in Endangered Species (CITES).
7. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where Lender considers the radioactive source to be trivial and/or adequately shielded.
8. Production or trade in or use of unbounded asbestos fibers.
9. Any activities involving significant degradation or conversion of critical habitats² and/or any activities in legally protected areas.
10. Activities damaging to national monuments and other critical cultural heritage.³
11. Drift net fishing in the marine environment using nets in excess of 2.5 km in length, electric shocks, or explosive materials.
12. Production or trade in wood or other forestry products other than from sustainably managed forests.⁶
13. Production or trade in pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (Borrower's) subject to international phase outs or bans.
14. Production or activities involving harmful or exploitative forms of forced labor⁴ harmful child labor.⁵
15. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (gasoline, kerosene, other petroleum products, textile dyes etc.).
16. Production or activities that have adverse impacts, including relocation, on the

lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by historically underserved traditional local communities.

17. Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement.⁷
18. Military or police equipment or infrastructures, and equipment or infrastructure which result in limiting people's individual rights and freedom (i.e. prisons, detention centers of any form) or in violation of human rights.
19. Activities targeting tobacco manufacturing, processing, or specialist tobacco distribution, and activities facilitating the use of tobacco (e.g. "smoking halls").¹
20. Activities involving live animals for experimental and scientific purposes.

Footnotes

1. This does not apply to enterprises that are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to an enterprise's primary operations.
2. Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitats of significant importance for required for critically endangered or endangered species as defined by the IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant concentrations of migratory species and /or congregator species; areas with unique assemblages of species or which are associated with key evolutionary processes. Primary Forests or forests of High Conservation Value shall be considered Critical Habitats.
3. Critical cultural heritage consists of (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; and (ii) legally protected cultural heritage areas, including those proposed by national governments for such designation.
4. Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.
5. Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be

harmful to the child's health, or physical, mental, spiritual, moral, or social development.

6. Sustainable forest management may be demonstrated by the application of industry-specific good practices and available technologies. In some cases, it may be demonstrated by certification/ verification or progress towards certification /verification under a credible standards system.
7. Land acquisition and/or restrictions on land use may result in the physical displacement of people (involuntary resettlement) as well as their economic displacement (as loss of assets and/or means of livelihood, regardless of whether or not the affected people are physically displaced).

Appendix 3: Clause to be included in the Sub-Loan Agreement between the Borrower and final beneficiaries

(The text under this article reflects standard requirements for IDA credit lines)

The Beneficiary shall: (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the *IDA*, including in accordance with the provisions of the ESMS, the Anti-Corruption Guidelines applicable to recipients of loan proceeds and the Operations Manual; (B) provide, promptly as needed, the resources required for the purpose; (C) *sub-loan proceeds for acquiring goods, works, or services, as applicable, will be used in line with well-established private sector procurement methods or commercial practices acceptable to the IDA.*; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the *IDA*, the progress of the Sub-project and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) at the *IDA's*, *PMT's* or the Borrower's request, have such financial statements audited by independent auditors acceptable to the *IDA*, and promptly furnish the statements as so audited to the *PMT* and the *IDA*; (F) enable the *PMT*, the Borrower and the *IDA* to inspect the Sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the *PMT*, the Borrower, and the *IDA* all such information as the *PMT*, the Borrower, or the *IDA* shall reasonably request relating to the foregoing.

Appendix 4: Consumer protection SLA disclosures

Item	Information to be disclosed
Amount of principal	The total amount borrowed.
Amount disbursed	Actual amount disbursed (being the amount of principal less than any amounts withheld by the Borrower, such as for upfront fees or charges).
Interest rate	The annualized rate of interest payable under the SLA.
Total interest payable	The total amount of interest payable over the term of the loan, assuming that repayments are made according to the repayment schedule and there is no change to the interest rate.
Fees and charges	<p>A list of all fees and charges payable (or that may be payable if a particular event occurs, including on default) in relation to the loan. This list shall include:</p> <ul style="list-style-type: none"> a) the amount or rate of each fee or charge; and b) when each fee or charge is payable.
Total cost of loan	Total interest payable + total fees and charges payable, assuming that repayments are made according to the repayment schedule and there are no changes to the interest rate or fees and charges.
Repayment schedule	The amount of each repayment due under the SLA, the date on which it is due and the amount of principal that would remain outstanding after the repayment is made.
Total amount repayable	The total of all repayments required under the SLA.

Annex 3.5 DBE Institutional Development Plan

Overall, DBE is found to be eligible to take part in the World Bank funded SME Finance Project, subject to implementation of a new institutional development plan. The institutional development plan includes the following measures that will be financed by DFID funded PEPE project in support of and closely coordinated with SME finance project activities:

- 1. Strengthening of project finance business:**
 - b) Portfolio review to assess overall portfolio quality and key risk areas
 - c) Review of project appraisal process
 - d) Review of portfolio management, project follow up and loan collection processes
 - e) Review of project rehabilitation and loan recovery processes
 - f) Updating of all project finance process and procedures manuals and related staff training

- 2. Address current high level of NPLs**
 - a) Development of an NPL resolution strategy
 - b) Ongoing monthly monitoring of NPL resolution progress

- 3. Business planning for lease financing business**
 - a) Preparation of a business plan for the Bank's lease financing business, to include quantification of the business opportunity, product definition, marketing and sales strategy, resource/training requirements, financial projections, etc.
 - b) Development of appraisal, credit administration and portfolio management processes and procedures
 - c) Quality assurance process development for enhanced portfolio monitoring
 - d) Staff training

- 4. Strengthening of risk management**
 - a) Operationalization of *DBE Risk Management Program*, Board Risk Management Committee and quarterly consolidated risk management reporting
 - b) Operationalization of *DBE Asset/Liability Management Guidelines*, Asset/liability management committee (ALCO) and treasury operations
 - c) Assessment of anti-money laundering awareness/practice and due diligence review of all existing DBE clients

- 5. Implementation of treasury operations**
 - a) Implementation of measures detailed in the WEDP-supported institutional development plan as incorporated in the *DBE Redesigned Fund Management Process*

- 6. Implementation of succession planning program**
 - a) Operationalization of measures detailed in the WEDP-supported institutional development plan and incorporated in the DBE succession planning program

Annex 3.6

Interim Financial Report Format-DBE

SME financing Project

Interim Unaudited Financial Report - DBE

Content

Discussion of Financial performance, Notes & Explanations

Consolidated Statement of Sources and Uses of Fund

Statement of Uses of Funds by PFIs/lease companies/commercial banks

Statement of Designated accounts by account/donor

Supporting schedules

Particulars	Current Quarter (In ETB)/I	Cummulative Year to date (In ETB)/II	(To date) (In ETB Birr)/III(a)	Remarks
Opening Balance				
Designated Account /III	-	-	-	
IDA Credit Account (Designated USD Acct.)	-	-	-	
EIB Designated USD account	-	-	-	
Pooled Birr Account at DBE				
Advance to MFIs and commercial banks (window 2)				
Advance to Leasing companies (window 1)				
Accrued Interest Receivable from PFIs/ lease companies/commercialbanks				
Subsidiary Loan	-			
Interest payable to MoFEC	-		-	
Loan Risk Fund	-			
Total Opening Balance	-		-	
Add: Sources for the quarter				
IDA	-		-	
EIB	-		-	
Sub Total	-		-	
Interest Income	-		-	
Total Source For the Period	-		-	
Total Available Fund For The Period	-		-	
Less : Program Expenditures (ANNEX 1	-		-	
Total Available Fund less Total Expenditures	-		-	
Foreign Exchange Difference/IV	-		-	
Net Fund Available	-		-	
Ending Balance				
Designated Account /III	-		-	
IDA Credit Account (Designated USD Acct.)	-		-	
EIB Designated USD account	-		-	
Pooled Birr Account at DBE				
Pooled Birr Account at DBE				
Advance to MFIs (window 2)				
Advance to Leasing companies and commercial banks (window 1)				
Accrued Interest Receivable	-		-	
Interest payable to MoFEC	-		-	
Loan Risk Fund	-		-	
Total Ending Balance	-		-	
NOTES:				
I - The amounts are drawn from the ledger accounts of the program				
II - Program of the fiscal year				
II(a) - Program to date (for the whole life of the project)				
III- The following rates were used for conversion: 1us Dollat=XXBirr (Separately for opening and closing balances of DA)				
IV - The gain or loss on exchange rate is determined by the rate prevailing at the reporting date.				
Prepared By _____		Approved By _____		
Signature _____		Signature _____		
Date _____		Date _____		

DEVELOPMENT BANK OF ETHIOPIA
SME financing project
Consolidated Expenditures Summary (in Ethiopia Birr) - Window 1 (lease financing)
For The Quarter Ended

Particulars	Annual Budget based on forecast	1st Quarter Expenditure (2)	2nd quarter expenditure (3)	3rd quarter expenditure (4)	4th quarter expenditure (5)	Total expenditure for the year (6)	Variance /Remaining Budget/ (1-6)=7	% of utilization
Expenditures(Applications)								
<i>Component 1: Financial services to SMEs</i>								
Loan provided to SMEs by DBE								
Loan provided to SMEs by lease company 1								
company 2								
Grand Total of the Project								

Financiers	Financing Share%	Actual expenditures	Actual Expenditures
IDA Credit			
EIB			
Total			

Prepared By _____ Approved By _____
Signature _____ Signature _____
Date _____ Date _____

DEVELOPMENT BANK OF ETHIOPIA SME financing Project Fund flow statement Pooled local Bank a/c _____ (Birr) As of		
	<i>Birr</i>	<i>Birr</i>
Balance brought forward		-
Cash Transfer From IDA Credit	-	-
Cash Transfer From EIB	-	-
Fund available for use		-
Fund transfer		
PFI 1		
PFI 2		
PFI 3		
Lease company 1		
lease company 2		
lease company 3		
commercial bank 1		-
commercial bank 2		
Bank service charge		
Incoming and Out going		
Total Transfer & bank service Charge		
Cash at Bank		

Prepared By _____ Signature _____ Date _____	Approved By _____ Signature _____ Date _____
--	--

DEVELOPMENT BANK OF ETHIOPIA
SME financing project
STATEMENT OF FUND FLOW IDA
SPECIAL DOLLAR ACCOUNT NO.
THE PERIOD, FROM

	USD		BIRR
OPENING BALANCE	-		-
Add :Receipt			
Credit received as at	-		-
Fund Available for use	-		-
Less: Transfer and Expenditure			
Transfer to pool birr account as at	-		-
Expenditures	-		-
Total transfer & expenditure	-	-	-
closing balance	-		-
Actual exchange rate of		-	
closing balance /Leger birr account/		-	
Add gain or (Loss) on Foreign exchange Gain			-
Balance After Gain of foreign exchange			-

Prepared By _____ Approved By _____
 Signature _____ Signature _____
 Date _____ Date _____

DEVELOPMENT BANK OF ETHIOPIA
Women Enterpreneurs Development Project
STATEMENT OF FUND FLOW EIB
SPECIAL DOLLAR ACCOUNT NO.
THE PERIOD, FROM

	USD		BIRR
OPENING BALANCE	-		-
Add :Receipt			
loan Received as at	-		-
Fund Available for use	-		-
Less: Transfer and Expenditure			
Transfer to pool birr account as at	-		-
Expenditures	-		-
Total transfer & expenditure	-	-	-
closing balance	-		-
Actual exchange rate of		-	
closing balance /Leger birr account/		-	
Add gain or (Loss) on Foreign exchange Gain			-
Balance After Gain of foreign exchange			-

Prepared By _____ Approved By _____
 Signature _____ Signature _____
 Date _____ Date _____

DEVELOPMENT BANK OF ETHIOPIA
SME financing project
Consolidated Expenditures Summary (in Ethiopia Birr)
For The Quarter Ended _____

Designated Account Activity Statement for the Reporting Period

Project Name:

Loan Number

Bank and Account No.:

IDA Credit	MDTF	Total
------------	------	-------

Part I: Advances to be accounted (Cumulative)

1. Cumulative advances to end of current reporting
2. Cumulative expenditures to end of last reporting
3. Outstanding advances to be accounted (1-2)

Part II: Movements in pooled Designated Account in current period

1. Opening balance at beginning of reporting period
 - 1.1. Designated Account
 - 1.2. Project Bank accounts
 - 1.3. Total

4. a Advances received from the World Bank during reporting period

Application No. Amount.

Sub total (4 a)

4.b Advances received from other Donor Partners

Total (4 a + 4 b)

5 a. Subtract: Recoveries of Advances, if any

5 b. Add/Subtract: Other Cumulative adjustments, including interest earned, (if any)

Sub total 5 (5a + 5 b)

<p>6. Net advances to be accounted for (3+4+5)</p> <p>7. Closing balance at end of current reporting (as of Designated Account Bank statement attached)</p> <p> 7.1 Designated Account</p> <p> 7.2 Project Bank accounts</p> <p> 7.4 Total</p> <p>8. Expenditures reported for current reporting period (only expenditures paid from Designated Account & project bank account)</p> <p>9. Total Advances Accounted for (7+8)</p> <p>10. Applications submitted but not yet credited to DA</p> <p>11. Difference (if any) 6-9-10</p>			
<p>Approved by:</p>			

DEVELOPMENT BANK OF ETHIOPIA
DETAIL OF ADVANCE TO PFIs/ commercial banks (window 2)
THE PERIOD, FROM

BIRR

Leasing company 1
Leasing company 2
Leasing company 3
Total Advance to leasing companies

Prepared By _____
Signature _____
Date _____

Approved By _____
Signature _____
Date _____

DEVELOPMENT BANK OF ETHIOPIA
DETAIL OF ADVANCE TO PFIs/ commercial banks (window 2)
THE PERIOD, FROM

BIRR

Advance to PFI 1
Advance to PFI 2
Advance to PFI 3
Advance to commercial bank 1
Advance to commercial bank 2
Advance to commercial bank 3

Total Advance to PFIs

Prepared By _____
Signature _____
Date _____

Approved By _____
Signature _____
Date _____

DEVELOPMENT BANK OF ETHIOPIA SME financing project STATEMENT OF CASH MOVMENT _____ PFI/CB/LC THE PERIOD, FROM			
Opening Balance Add :Cash transfers Transfers from DBE Fund Available for use Less :Expenditure Loan provided for month 1 Loan provided for month 2 Loan provided for month 3 Total expenditure Remaining fund available for loan to MSEs	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; padding: 5px;">Birr</th> </tr> </thead> <tbody> <tr> <td style="height: 400px;"> </td> </tr> </tbody> </table>	Birr	
Birr			
<table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"> Prepared By _____ Signature _____ Date _____ </td> <td style="width: 50%; border: none;"> Approved By _____ Signature _____ Date _____ </td> </tr> </table>		Prepared By _____ Signature _____ Date _____	Approved By _____ Signature _____ Date _____
Prepared By _____ Signature _____ Date _____	Approved By _____ Signature _____ Date _____		

Annex 3.7

TERMS OF REFERENCE FOR AUDIT For SME financing project Implemented by DBE

1. BACKGROUND

The project development objective of the project is to increase access to finance for eligible small and medium enterprises in Ethiopia. This will be achieved by the components: (i) Component 1: Financial Services to SMEs; (ii) Component 2: Enabling environment for SME Finance; (iii) Component 3: Business Development Services to SMEs; (iv) Component 4: Project’s management, communication and impact evaluation.

DBE will be implementing Components one through its own branches, leasing companies, commercial banks and MFIs.

FeSMMIDA is responsible for engaging the auditor on behalf of DBE. The accounting period covered by the audit is from July 1 to June 30. The auditor should include in its audit the accounts of DBE as it relates to WEDP, selected PFIs and sample MSEs who have received loans from the project.

A subsidiary financing agreement has been signed with MoFEC on July 12, 2016 indicating the agreement between the MoFEC and DBE for on-lending part of the proceeds of IDA credit to DBE.

2. OBJECTIVE OF THE PROJECT AUDIT

The objective of the audit of the Project Financial Statements (PFSs) is to enable the auditor to express a professional opinion(s) on the financial position of the project at the end of each fiscal year, and on funds received and expenditures incurred for the relevant accounting period.

The project books of accounts provide the basis for preparation of the PFSs by the project implementing agency and are established to reflect the financial transactions in respect of the project. The implementing agency maintains adequate internal controls and supporting documentation for transactions.

3. PREPARATION OF ANNUAL FINANCIAL STATEMENTS

The responsibility for the preparation of financial statements including adequate disclosure is that of DBE. DBE is also responsible for the selection and application of accounting policies. DBE would prepare the PFSs in accordance with *<state here the applicable accounting standards>*.

The auditor is responsible for forming and expressing opinions on the financial statements. The auditor would carry out the audit of the project in accordance with the International Standards on Auditing (ISA), as promulgated by the International Federation of Accountants (IFAC). As part of the audit process, the auditor may request from the implementing agency written confirmation concerning representations made in connection with the audit.

4. SCOPE OF THE AUDIT

As stated above, the audit of the project will be carried out in accordance with International Standards on Auditing (ISA) promulgated by the International Federation of Accountants (IFAC), and will include such tests and auditing procedures as the auditor will consider necessary under the circumstances. **Along with the accounts of DBE, the auditor, on a sample basis should visit the selected Micro Finance Institutions (MFIs), leasing companies, commercial banks and branches of DBE participating in the project as well as final beneficiaries** and ensure the following are adhered to. Special attention should be paid by the auditor as to whether the:

- (a) World Bank financing (and all external financing where the World Bank is not the only financier) has been used in accordance with the conditions of the relevant financing agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided – please see *<state here clearly the relevant financing agreements>*;
- (b) Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
- (c) Goods, works and services financed have been procured in accordance with the relevant financing agreements including specific provisions of the [World Bank Procurement Policies and Procedures](#)¹²;
- (d) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) method of reporting. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;
- (e) Designated Accounts (if used) have been maintained in accordance with the provisions of the relevant financing agreements and funds disbursed out of the Accounts were used only for the purpose intended in the financing agreement;

¹² Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. In cases where such experts are involved, the auditor is expected to comply with provisions of [International Standard on Auditing 620: Using the Work of an Expert](#). Consideration to use of the work of experts should be brought to the early attention of the borrower and the World Bank for mutual agreement and appropriate guidance.

- (f) National laws and regulations have been complied with, and that the financial and accounting procedures approved for the project (e.g. operational manual, financial procedures manual, etc.) were followed and used;
- (g) Financial performance of the project is satisfactory.
- (h) Assets procured from project funds exist and there is verifiable ownership by the implementing agency or beneficiaries in line with the financing agreement.
- (i) Ineligible expenditures included in withdrawal applications are identified and reimbursed to the Designated Accounts. These should be separately noted in the audit report.

The auditor must visit sample MFIs, commercial banks, leasing companies and DBE branches and ensure that they are operating as per the SME financing Credit Facility Agreement) and the reports being sent to DBE are accurate and complete.

The auditor must also review sample final beneficiaries to ascertain that they are complying with the agreement signed with the MFIs/lease companies/commercial banks; the money is being used for intended purposes and that they are regularly reporting as per their agreement.

In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters:

- a) ***Fraud and Corruption***: Consider the risks of material misstatements in the financial statements due to fraud as required by ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements. The auditor is required to identify and assess these risks (of material misstatement of the financial statements) due to fraud, obtain sufficient appropriate audit evidence about the assessed risks; and respond appropriately to identified or suspected fraud;
- b) ***Laws and Regulations***: In designing and performing audit procedures, evaluating and reporting the results, consider that noncompliance by the implementing agency with laws and regulations may materially affect the financial statements as required by ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements;
- c) ***Governance***: Communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity as required by International Standards on Auditing 260: Communication of Audit Matters with those Charged with Governance.
- d) ***Risks***: In order to reduce audit risk to an acceptable low level, determine the overall responses to assessed risks at the financial statement level, and design and perform further audit procedures to respond to assessed risks at the assertion level as required by Internal Standard on Auditing 330: the Auditor's Procedures in Response to Assessed Risks.

5. PROJECT FINANCIAL STATEMENTS (PFSs)

The auditor should verify that the project PFSs have been prepared in accordance with the agreed accounting standards (see paragraph 3 above) and give a true and fair view of the financial position of the project at the relevant date and of resources and expenditures for the financial year ended on that date.

The Project Financial Statements (PFSs) should include:

- (a) The financial statement of the project as reflected in the DBE accounting software
- (b) A statement of funds received, showing funds from the World Bank, project funds from other donors and counterpart funds separately, and of expenditures incurred;
- (c) A summary of the activity in the Designated Account;
- (d) A Balance Sheet (if deemed necessary);
- (e) A Summary of the principal accounting policies that have been adopted, and other explanatory notes;
- (f) A list of material assets acquired or procured to date with project funds

As an Annex to the PFSs, the auditor should prepare a reconciliation of the amounts as “received by the Project from the World Bank”, with those shown as being disbursed by the Bank.

6. STATEMENT OF EXPENDITURES (SOEs)

In addition to the audit of the PFSs, the auditor is required to verify all SOEs used as a basis for the submission of loan withdrawal applications to the World Bank. The auditor will apply such tests and auditing procedures as considered necessary under the circumstances. Annexed to the PFSs should be a schedule listing individual SOE withdrawal applications by specific reference number and amount.

The total withdrawals under the SOE procedure should be part of the overall reconciliation of Bank disbursements described in paragraph 5 above.

7. DESIGNATED ACCOUNT

In conjunction with the audit of the Project PFSs, the auditor is also required to review the activities of the Designated Account associated with the project. The Designated Account usually comprises:

- Advance deposits received from World Bank;
- Replenishments substantiated by withdrawal applications;
- Interest that may have been earned on the accounts, and which belong to the recipient; and

- Withdrawals related to project expenditures

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year (or period). The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period, the operation and use of the DAs in accordance with the relevant general conditions, relevant financing agreements and disbursement letter, and the adequacy of internal controls for this type of disbursement mechanism.

For this Project, the Designated Accounts are referred to in the general conditions, the Financing Agreement (subsection 5.3) and Disbursement Letter (para. I).

The auditor should also examine eligibility and correctness of:

- Financial transactions during the period under review;
- Account balances at the end of such a period;
- The operation and use of the Designated Account in accordance with the financing agreement; and
- The adequacy of internal controls for the type of disbursement mechanism.

8. AUDIT REPORT

The auditor will issue an opinion on the project financial statements (PFSs). The annual audit report of the project accounts should include a separate paragraph highlighting key internal control weaknesses and non-compliance with the financing agreement terms.

9. MANAGEMENT LETTER

In addition to the audit report, the auditor will prepare a management letter, in which the auditor will:

- (a) Give comments and observations on the accounting records, systems and controls that were examined during the course of the audit;
- (b) Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;
- (c) Report on the degree of compliance of each of the financial covenants in the financing agreement and give comments, if any, on internal and external matters affecting such compliance;

- (c) Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project;
- (d) Give comments on the extent to which outstanding issues/qualifications issues have been addressed;
- (e) Give comments on previous audits' recommendations that have not been satisfactorily implemented; and
- (f) Bring to the recipient's attention any other matters that the auditor considers pertinent, including ineligible expenditures.

Ideally, the management letter should also include responses from the implementing agency to the issues highlighted by the auditor.

10. AVAILABLE INFORMATION

The auditor should have access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditor. The auditor will also obtain confirmation of amounts disbursed and outstanding at the Bank. Available information should include copies of the relevant: project appraisal document; financing agreement; financial management assessment reports; supervision mission reports and implementation status reports.

11. GENERAL

The financial statements, including the audit report, management letter and management response should be received by the Bank no later than six months after the end of the accounting year to which the audit relates.

The auditor should submit the report to the recipient's designated agent rather than to any staff member of the project entity. The agent should then promptly forward two copies of the audit report and accompanying statements to the Bank together with the management letter and management response.

It is highly desirable that the auditor becomes familiar with the Bank's Guidelines on Annual Financial Reporting for World Bank-Financed Activities, June 30, 2003, which summarizes the Bank's financial reporting and auditing requirements. The auditor should be familiar with World Bank Procurement Guidelines, which can be obtained from the project implementing agency. The auditor should also be familiar with the Bank's Disbursement Handbook for World Bank Clients, Disbursement Guidelines for Projects: May 2006 and revised in 2015. These documents are available on the Bank's website and could be obtained from the Task Team Leader.

Annex 5.1 Government Accounts Classifications/Items of Expenditure and Federal/Regional/City Admin Codes

Government Accounts Code/ Item of Expenditure		Federal and Regions/City Admin Code	
4100-4199	Cash and cash equivalents	Federal	15
4101	Cash on Hand	Tigray	01
4102	Cash at Bank IDA USD	Afar	02
4103	Cash at Bank EIB FCY (Euro or USD, the currency in which the fund provided)	Amhara	03
4111	Cash at Bank Birr IDA	Oromia	04
4112	Cash at Bank Birr EIB	Somalie	05
4200-4299	Receivables	Benishangul Gumuz	06
4201	Suspense	Southern Nations, Nationalities and People	07
4208	Advance to Regions	Gambella	08
4251	Advance to Contractors	Hareri	09
4252	Advance to Consultants	Addis Ababa	10
4253	Advance to Suppliers	Dire Dawa	11
5000-5099	Payables		
5002	Sundry Creditors		
5003	Pension Contribution Payable		
5004	Salary Tax Payable		
5005	Other Payroll Deductions		
5006	Withholding Tax		
5021	Due to Staff		
5026	Due to Regions		
5059	VAT		
5600-5699	NET ASSETS/EQUITY		
5601	Fund Balance		
1000-3999	Revenue/Assistance/Loan		
1001	Other Income		
1002	Foreign Exchange Gain - IDA		
1003	Foreign Exchange Gain - EIB		
6000-6999	Expenditure		
6111	Salary		
6123	Allowance and Staff Benefits		
6131	Pension Contribution		
6211	Stationery and Office Supplies		
6213	Printing and Publication		
6214	Medical Expenses		
6217	Fuel and Lubricant		
6218	Other materials and Supplies		
6231	Per diem		
6232	Transportation		

6233	Official Entertainment
6241	Vehicle Maintenance
6243	Office Equipment Maintenance
6244	Building Maintenance
6251	Contractual Professional Services
6252	Rent
6254	Insurance
6255	Loading and Unloading
6256	Bank Service Charge
6258	Telecommunication Expenses
6271	Training
6311	Purchase of Vehicles
6313	Purchase of Furniture and Equipment
6417	Reward and Support to People
6419	Other Miscellaneous Admin Expenses

Annex 5.2

**Small and Medium Enterprises Finance Project
Cash Receipt Voucher**

TIN:..... No.
 Date
 Received From
 Amount in Figure Birr
 Amount in Words Birr
 Purpose
 Check /TT No.....or cash.....

For Accounting Use only

Code Number	Description	Debit	Credit

Prepared by Received by: Name.....
 Signature

Distribution

- Original - Payer
- 1st copy - Accounts
- 2nd copy - Pad

Annex 5.3

Small and Medium Enterprises Finance Project
Check Payment Voucher

No.

Date

Paid To

Amount in Figure Birr

Amount in Words Birr

Purpose

Check No.....Bank a/c No.....

For Accounting Use only

Code Number		Description	Debit		Credit	

Prepared by

Checked by Approved by

Recipient's Name

I.D. Number

Signature

Distribution

Original - Accounts

Copy - Pad

Annex 5.6

Small and Medium Enterprises Finance Project
Bank book

Page No.....

MonthYear.....

Date	Description	Ck. No.	Refer. CPV or Bank Slip	Amount		
				Deposit b.	Withdrawals	Balance
	B.B.F.					
Total/B.C.F						

Prepared by: Name..... Signature..... Date

Annex 5.7

Small and Medium Enterprises Finance Project
Cash Suspense Sheet

Date

Paid To:

Amount in Figure

Amount in Words

.....

Purpose

.....

Approved by.....

I the undersigned hereby acknowledge having received cash for the
purpose stated above and for which I hold myself responsible to settle it.

Recipient's Name.....

Signature.....

Annex 5.8

Small and Medium Enterprises Finance Project
Payment Request Form

Date.....

Paid to

Address

In Cash Check Transfer

Amount in figure

Amount in words

.....

Purpose

.....

Reference

Requested by Name.....

Signature

Authorized by

Annex 5.9

Small and Medium Enterprises Finance Project
Cash Control Form

Petty cash ceiling =====

Cash count

Notes		Cents	
100x	=	0.50x	=
50x	=	0.25x	=
10x	=	0.10x	=
5x	=	0.05x	=
1x	=	0.01x	=
Total		Total	

Total Cash on Hand
Cash Suspense
Unregistered direct expenses
Total Cash Balance =====

Variance

I the cashier of Small and Medium Enterprises Finance Project certify that I bring all the documents that are on my hand to the accounts and acknowledge and affix my signature that all the above details are correct and true.

Cashier's Name	Controller's Name.....
Signature	Signature.....
Date	Date

Annex 5.10

Small and Medium Enterprises Finance Project
Petty Cash Expenses Summary Sheet

Page.....

Period From.....To.....

Voucher Number	Date	Description	Amount	Remarks
Total				

I, the undersigned, have received the above listed petty cash payment vouchers with the relevant supporting documents

Name.....

Signature.....

Date.....

Annex 5.11

Small and Medium Enterprises Finance Project

Travel Advance Request Form

Date.....

Name Position

Daily Per diem

Place of Travel

Departure Date Date of Return

Per diem Advance

Advance for fuel and minor maintenance, and other
expenses

Total Advance

Requested By:

Name

Signature Approved By.....

Annex 5.13

Small and Medium Enterprises Finance Project
Fuel Coupon Request and Approval Form

Date.....

Vehicle Plate No.....

Current Mileage

Coupon No.....

Requested by: Name.....

Checked by -----

Approved by

Recipient's signature.....

Annex 5.14

Small and Medium Enterprises Finance Project
Repair Service Request Form

Date.....

Property type

Fixed asset identification No or Plate No. for Vehicle

Description of the service requirement
.....
.....
.....

Requested by: Name..... Signature.....

Approved by

Annex 5.15

SME Financing Project

Interim Unaudited Financial Report – FeSMMIDA

Content

Discussion of Financial Performance, Notes and Explanation

Consolidated Statement of Sources and Uses of Fund

Statement of Uses of Fund by Category

Statement of Designated Accounts by Account/Donor

Supporting Schedules

FeSMMIDA SME Financing Project

Sources & Uses of Funds (in Ethiopian Birr)

For The Quarter Ended

Particulars	Budget for the year	Current Quarter			Cummulative for the year(In			Cumulative for project life		
		Planned	Actual	Variance	Planned	Actual	Variance	Planned	Actual	Variance
Opening Balance										
Designated Account /III		-						-		
IDA Credit Account (Designated USD Acct.)		-						-		
Birr Account at MOI										
Receivables										
Less: Payables										
Total Opening Balance		-						-		
Add: Sources for the quarter										
IDA		-						-		
Sub Total		-						-		
Total Source For the Period		-						-		
Total Available Fund For The Period		-						-		
Less : Program Expenditures		-						-		
Component 2 - Enabling environment for SME										
Component 3: Business development service to SMEs										
Component 4: Project Management, communication and impact evaluation										
Total Expenditure										
Total Available Fund less Total Expenditures		-						-		
Foreign Exchange Difference/IV		-						-		
Net Fund Available		-						-		
Ending Balance										
Designated Account /III		-						-		
IDA Credit Account (Designated USD Acct.)		-						-		
Birr Account at MOI										
Receivables										
Less: Payables		-						-		
Total Ending Balance		-						-		

NOTES:

I - The amounts are drawn from the ledger accounts of the program

II - Program of the fiscal year

II(a) - Program to date (for the whole life of the project)

III- The following rates were used for conversion: 1us Dollat=XXBirr (Separately for opening and closing balances of DA)

IV - The gain or loss on exchange rate is determined by the rate prevailing at the reporting date.

Prepared By _____

Approved By _____

Signature _____

Signature _____

Date _____

Date _____

FeSMMIDA SME Financing Project

Statement of uses of fund (in Ethiopia Birr)

For The Quarter Ended

Project components	Categories					Total expenditure
	Goods	Works	Services	training	Operating cost	
Component 2 - Enabling environment for SMEs						
Component 3: Business developmetn service to SMEs						
Component 4: Project management, communication and impact evaluation						
Total Expenditure						

Prepared By _____

Approved By _____

Signature _____

Signature _____

Date _____

Date _____

FeSMMIDA SME Financing Project Fund flow statement Pooled local Bank a/c _____ (Birr) As of				
	<i>Birr</i>	<i>Birr</i>		
Balance brought forward	-	-		
Cash Transfer From IDA Credit	-	-		
Fund transfer				
Bank service charge Incoming and Out going				
Total Transfer & bank service Charge				
Cash at Bank				
<table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> Prepared By _____ Signature _____ Date _____ </td> <td style="width: 50%; vertical-align: top;"> Approved By _____ Signature _____ Date _____ </td> </tr> </table>			Prepared By _____ Signature _____ Date _____	Approved By _____ Signature _____ Date _____
Prepared By _____ Signature _____ Date _____	Approved By _____ Signature _____ Date _____			

FeSMMIDA SME Financing Project
STATEMENT OF FUND FLOW IDA
Designated DOLLAR ACCOUNT NO.
THE PERIOD, FROM

	USD		BIRR
OPENING BALANCE	-		-
Add :Receipt			
Credit received as at	-		-
Fund Available for use	-		-
Less: Transfer and Expenditure			
Transfer to pool birr account as at	-		-
Expenditures	-		
Total transfer & expenditure	-	-	-
closing balance	-		-
Actual exchange rate of		-	
closing balance /Leger birr account/		-	
Add gain or (Loss) on Foreign exchange Gain			-
Balance After Gain of foreign exchange			-

Prepared By _____ Approved By _____
 Signature _____ Signature _____
 Date _____ Date _____

FeSMMIDA SME Financing Project
Consolidated Expenditures Summary (in Ethiopia Birr)
For The Quarter Ended

Designated Account Activity Statement for the Reporting Period		
Project Name:		
Loan Number	IDA Credit	MDTF
Bank and Account No.:		Total
Part I: Advances to be accounted (Cumulative)		
1. Cumulative advances to end of current reporting		
2. Cumulative expenditures to end of last reporting		
3. Outstanding advances to be accounted (1-2)		
Part II: Movements in pooled Designated Account in current period		
1. Opening balance at beginning of reporting period		
1.1. Designated Account		
1.2. Project Bank accounts		
1.3. Total		
4. a Advances received from the World Bank during reporting period		
<u>Application No.</u> <u>Amount.</u>		
Sub total (4 a)		
4.b Advances received from other Donor Partners		
Total (4 a + 4 b)		
5 a. Subtract: Recoveries of Advances, if any		
5 b. Add/Subtract: Other Cumulative adjustments, including interest earned, (if any)		
Sub total 5 (5a + 5 b)		

<p>6. Net advances to be accounted for (3+4+5)</p> <p>7. Closing balance at end of current reporting (as of (Designated Account Bank statement attached)</p> <p> 7.1 Designated Account</p> <p> 7.2 Project Bank accounts</p> <p> 7.4 Total</p> <p>8. Expenditures reported for current reporting period (only expenditures paid from Designated Account & project bank account)</p> <p>9. Total Advances Accounted for (7+8)</p> <p>10. Applications submitted but not yet credited to DA</p> <p>11. Difference (if any) 6-9-10</p>			
<p>Approved by:</p>			

Annex 5.16

TERMS OF REFERENCE FOR AUDIT For SME financing project implemented by FeSMMIDA

5. BACKGROUND

The project development objective of the project is to increase access to finance for eligible small and medium enterprises in Ethiopia. This will be achieved by the components: (i) Component 1: Financial Services to SMEs; (ii) Component 2: Enabling environment for SME Finance; (iii) Component 3: Business Development Services to SMEs; (iv) Component 4: Project's management, communication and impact evaluation.

FeSMMIDA will be implementing Components two, three and four of the project. The operational responsibility for the project implementation in the regions will rest with the REMSEDAs but no fund will be flowing to the regions.

FeSMMIDA is responsible for engaging the auditor the recipient of the audit report once finalized by the auditor. The accounting period covered by the audit is from July 8 to July 7.

6. OBJECTIVE OF THE PROJECT AUDIT

The objective of the audit of the Project Financial Statements (PFSs) is to enable the auditor to express a professional opinion(s) on the financial position of the project at the end of each fiscal year, and on funds received and expenditures incurred for the relevant accounting period.

The project books of accounts provide the basis for preparation of the PFSs by the project implementing agency and are established to reflect the financial transactions in respect of the project. The implementing agency maintains adequate internal controls and supporting documentation for transactions.

7. PREPARATION OF ANNUAL FINANCIAL STATEMENTS

The responsibility for the preparation of financial statements including adequate disclosure is that of FeSMMIDA. FeSMMIDA is also responsible for the selection and application of accounting policies. FeSMMIDA would prepare the PFSs in accordance with the financial rules and regulations of the federal government of Ethiopia.

The auditor is responsible for forming and expressing opinions on the financial statements. The auditor would carry out the audit of the project in accordance with the International Standards on Auditing (ISA), as promulgated by the International Federation of Accountants (IFAC). As part of the audit process, the auditor may request from the implementing agency written confirmation concerning representations made in connection with the audit.

4. SCOPE OF THE AUDIT

As stated above, the audit of the project will be carried out in accordance with International Standards on Auditing (ISA) promulgated by the International Federation of Accountants (IFAC), and will include such tests and auditing procedures as the auditor will consider necessary under the circumstances. Special attention should be paid by the auditor as to whether the:

- (a) World Bank financing (and all external financing where the World Bank is not the only financier) has been used in accordance with the conditions of the relevant financing agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided – please see *<state here clearly the relevant financing agreements>*;
- (b) Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
- (c) Goods, works and services financed have been procured in accordance with the relevant financing agreements including specific provisions of the [World Bank Procurement Policies and Procedures](#)¹³;
- (d) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) method of reporting. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;
- (j) Designated Accounts (if used) have been maintained in accordance with the provisions of the relevant financing agreements and funds disbursed out of the Accounts were used only for the purpose intended in the financing agreement;
- (k) National laws and regulations have been complied with, and that the financial and accounting procedures approved for the project (e.g. operational manual, financial procedures manual, etc.) were followed and used;
- (l) Financial performance of the project is satisfactory.
- (m) Assets procured from project funds exist and there is verifiable ownership by the implementing agency or beneficiaries in line with the financing agreement.

¹³ Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. In cases where such experts are involved, the auditor is expected to comply with provisions of [International Standard on Auditing 620: Using the Work of an Expert](#). Consideration to use of the work of experts should be brought to the early attention of the borrower and the World Bank for mutual agreement and appropriate guidance.

- (n) Ineligible expenditures included in withdrawal applications are identified and reimbursed to the Designated Accounts. These should be separately noted in the audit report.

In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters:

- e) ***Fraud and Corruption***: Consider the risks of material misstatements in the financial statements due to fraud as required by ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements. The auditor is required to identify and assess these risks (of material misstatement of the financial statements) due to fraud, obtain sufficient appropriate audit evidence about the assessed risks; and respond appropriately to identified or suspected fraud;
- f) ***Laws and Regulations***: In designing and performing audit procedures, evaluating and reporting the results, consider that noncompliance by the implementing agency with laws and regulations may materially affect the financial statements as required by ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements;
- g) ***Governance***: Communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity as required by International Standards on Auditing 260: Communication of Audit Matters with those Charged with Governance.
- h) ***Risks***: In order to reduce audit risk to an acceptable low level, determine the overall responses to assessed risks at the financial statement level, and design and perform further audit procedures to respond to assessed risks at the assertion level as required by Internal Standard on Auditing 330: the Auditor's Procedures in Response to Assessed Risks.

5. PROJECT FINANCIAL STATEMENTS (PFSs)

The auditor should verify that the project PFSs have been prepared in accordance with the agreed accounting standards (see paragraph 3 above) and give a true and fair view of the financial position of the project at the relevant date and of resources and expenditures for the financial year ended on that date

The Project Financial Statements (PFSs) should include:

- (a) A statement of funds received, showing funds from the World Bank, project funds from other donors and counterpart funds separately, and of expenditures incurred;
- (b) A summary of the activity in the Designated Account;
- (b) A Balance Sheet (if deemed necessary);

(g) A Summary of the principal accounting policies that have been adopted, and other explanatory notes;

(h) A list of material assets acquired or procured to date with project funds

As an Annex to the PFSs, the auditor should prepare a reconciliation of the amounts as “received by the Project from the World Bank”, with those shown as being disbursed by the Bank.

6. STATEMENT OF EXPENDITURES (SOEs)

In addition to the audit of the PFSs, the auditor is required to verify all SOEs used as a basis for the submission of loan withdrawal applications to the World Bank. The auditor will apply such tests and auditing procedures as considered necessary under the circumstances. Annexed to the PFSs should be a schedule listing individual SOE withdrawal applications by specific reference number and amount.

The total withdrawals under the SOE procedure should be part of the overall reconciliation of Bank disbursements described in paragraph 5 above.

7. DESIGNATED ACCOUNT

In conjunction with the audit of the Project PFSs, the auditor is also required to review the activities of the Designated Account associated with the project. The Designated Account usually comprises:

- Advance deposits received from World Bank;
- Replenishments substantiated by withdrawal applications;
- Interest that may have been earned on the accounts, and which belong to the recipient; and
- Withdrawals related to project expenditures

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year (or period). The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period, the operation and use of the DAs in accordance with the relevant general conditions, relevant financing agreements and disbursement letter, and the adequacy of internal controls for this type of disbursement mechanism.

For this Project, the Designated Accounts are referred to in the general conditions, the Financing Agreement (subsection 5.3) and Disbursement Letter (para. I).

The auditor should also examine eligibility and correctness of:

- Financial transactions during the period under review;
- Account balances at the end of such a period;
- The operation and use of the Designated Account in accordance with the financing agreement; and
- The adequacy of internal controls for the type of disbursement mechanism.

8. AUDIT REPORT

The auditor will issue an opinion on the project financial statements (PFSs). The annual audit report of the project accounts should include a separate paragraph highlighting key internal control weaknesses and non-compliance with the financing agreement terms.

9. MANAGEMENT LETTER

In addition to the audit report, the auditor will prepare a management letter, in which the auditor will:

- (a) Give comments and observations on the accounting records, systems and controls that were examined during the course of the audit;
- (b) Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;
- (c) Report on the degree of compliance of each of the financial covenants in the financing agreement and give comments, if any, on internal and external matters affecting such compliance;
 - (i) Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project;
 - (j) Give comments on the extent to which outstanding issues/qualifications issues have been addressed;
 - (k) Give comments on previous audits' recommendations that have not been satisfactorily implemented; and
 - (l) Bring to the recipient's attention any other matters that the auditor considers pertinent, including ineligible expenditures.

Ideally, the management letter should also include responses from the implementing agency to the issues highlighted by the auditor.

10. AVAILABLE INFORMATION

The auditor should have access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditor. The auditor will also obtain confirmation of amounts disbursed and outstanding at the Bank. Available information should include copies of the relevant: project appraisal document; financing agreement; financial management assessment reports; supervision mission reports and implementation status reports.

11. GENERAL

The financial statements, including the audit report, management letter and management response should be received by the Bank no later than six months after the end of the accounting year to which the audit relates.

The auditor should submit the report to the recipient's designated agent rather than to any staff member of the project entity. The agent should then promptly forward two copies of the audit report and accompanying statements to the Bank together with the management letter and management response.

It is highly desirable that the auditor becomes familiar with the Bank's Guidelines on Annual Financial Reporting for World Bank-Financed Activities, June 30, 2003, which summarizes the Bank's financial reporting and auditing requirements. The auditor should be familiar with World Bank Procurement Guidelines, which can be obtained from the project implementing agency. The auditor should also be familiar with the Bank's Disbursement Handbook for World Bank Clients, Disbursement Guidelines for Projects: May 2006 and updated in 2015. These documents are available on the Bank's website and could be obtained from the Task Team Leader.

Annex 5:17

Rationalization of Allowance Practices in Bank funded Projects

Qnote 063 - June 2008

The following rules and practices apply to projects financed by IDA unless otherwise explicitly provided for in the Development Credit/Grant Agreement. These rules and practices apply to all project funds required to finance the total project cost, including IDA credit and counterpart funds.

Type of Allowance	Basis	Comments
Salary top-up to Civil/Public Servants	Not allowed	Best scenario is for the government to devise an incentive as part of a broader civil service reform program
Sitting allowance to Civil/Public Servants (for attending workshops, Project Steering Committee meetings, other committee meetings, etc.)	Not allowed	Civil/Public Servants are paid to work for the government that donor-financed projects are owned by the Government civil servants are still working for the Government when they provide support in implementing projects.
Honorarium to Civil/Public Servants (payment for services performed in committees, meetings, workshops, etc.)	Not allowed	Ditto
Internal consulting of public and civil servants currently on the government payrolls	Not allowed	This could amount to double payments to government employees. The government should not be paying consulting fees to its payroll. A government employee may take a leave of absence (with or without pay) to work in another sector and be paid consulting fees by the government/project. The General conditions for hiring Government officials and civil servants under consulting contracts in Bank financed projects** are set forth in paragraph 1.11(d) Consultant Guidelines. The Government officials and civil servants cannot be hired under any circumstances by the agency for which they previously worked, or if their employment would create a conflict of interest. When hired as individual consultants, they would have to be on leave without pay for the expected duration of their consultant contract before signing it. When member of a consulting firm, they would have to be on leave without pay at the time the consulting firm submits its proposal.
Travel and Transport	Only as per governing rates***	Receipts are required for local travel expenses; receipts required for actual cost reimbursement accommodation but not for per diem hotel allowance; and receipts required for incidental expenses. Gasoline purchased for personal vehicles are not reimbursed.
Per Diem	Only as per governing rates/or less***	Ceilings apply
Sitting allowances, honorarium, etc. to consultants financed under a project (for attending workshops, Project Steering Committee meetings, other committee meetings, etc.)	Not allowed	Consultants are contracted and paid reasonable fees to render services to the project

Notes:

* These rules also apply to IDF or recipient-executed TFs.

** Please note that the financing of civil servants salaries (which is governed by the Bank's policy on financing recurrent costs; refer to [OP/BP 6:00, Bank Financing](#)) is different from recruiting civil servants as consultants under projects financed by the Bank (refer to [Consultants Guidelines](#)).

*** The reference to **governing rate** (in the table above) means the rate currently agreed between the Government, Bank and other DPs (an harmonized rate is preferred). In most cases, this would be the UNDP rate, which normally involves **lump sum hotel allowance and per diem**. However, the governing rate could be the Government or Bank rate if any of these is lower than the UNDP rate and preferred by the Government.

This Quote was extracted from AFTFM memo.

Annex 6.1

**RESULTS FRAMEWORK AND MONITORING
FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA: SME Finance Project**

Project Development Objective (PDO): The Project Development Objective (PDO) is to increase access to finance for eligible SMEs in Ethiopia.														
No.	PDO Level Results Indicators *	Core	Unite of Measurement	Base line	Cumulative Target Values						Freque ncy	Data Source / Method ology	Responsibility for Data Collection	Description
					YR 1	YR 2	YR 3	YR 4	YR 5	YR 6				
1.	Volume of Bank Support: Lines of Credit - SME	YES	Number (in millions USD)	0	0	25	75	155	220	269	Annual	DBE, PFIs	Project Management Team (DBE)	This indicator captures the financing facilitated from PFIs to target beneficiaries (i.e. SMEs) from both leasing and lending.
2.	Number of SMEs Reached with Financial Services	No	Number	0	0	200	600	1240	1760	2152	Annual	DBE, PFIs	Project Management Team (DBE)	This indicator is designed to include all enterprises that are direct recipients of loans and leases facilitated by project.
3.	Portfolio at Risk - SME	YES	Percent	n/a	n/a	<8 %	<8 %	<5%	<5%	<5%	Annual	DBE, PFIs	Project Management Team (DBE)	This indicator captures the quality of lending portfolio. The indicator will be calculated as non-performing loans and/or portfolio at risk according to the methodology of the National Bank of Ethiopia. .

Project Implementation Manual – SMEFP

Intermediate Results														
No.	Intermediate Results Indicators*	Core	Unit of Measurement	Base line	Cumulative Target Values						Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description
					YR 1	YR 2	YR 3	YR 4	YR 5	YR 6				
1.	Number of Loans/ Leases disbursed to SMEs	No	Number	0	0	360	1080	2232	3168	3873	Annual	DBE, PFIs	Project Management Team (DBE)	This indicator will include and calculate the aggregation of all loans and leases that were disbursed as part of the leasing and lending window for the DBE, and PFIs.
2.	Collateral Registry Established	No	Yes/No	No	No	No	Yes	Yes	Yes	Yes	Annual	NBE	Project Implementation Unit (FeSMMIDA)	This indicator will receive a 'Yes' once the registry is established and operational.
3.	Insolvency Diagnostic Completed	No	Yes/No	No	No	No	Yes	Yes	Yes	Yes	Annual	NBE	Project Implementation Unit (FeSMMIDA)	This indicator will receive a 'Yes' once the diagnostic is completed.
4.	Number of SMEs that received training through a BDS Program	No	Number	0	0	100	300	500	700	912	Annual	FeSM MIDA, BDS providers	Project Implementation Unit (FeSMMIDA)	Indicator captures the number of eligible SMEs that receive training as part of the BDS program.
5.	Report drafted on citizen engagement survey	No	Yes/Np	No	No	No	No	Yes	Yes	Yes	Annual	FeSM MIDA, BDS Providers	Project Implementation Unit (FeSMMIDA)	This indicator captures citizen engagement and feedback in overall project implementation. A "Yes" implies that the survey was administered and a report was drafted that contained sound and in-depth analysis of citizen feedback

Annex 6.2

**ADDITIONAL INDICATORS FOR RESULTS FRAMEWORK TRACKING¹⁴
FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA: SME Finance Project**

No.	PDO Level Results Indicators*	Description
1.	Volume of Bank Support: Lines of Credit – SME (Core) -Volume of Bank Support: Loans -Volume of Loans: Female-Owned Enterprises -Volume of Bank Support: Leases -Volume of Leases: Female-Owned Enterprises	This indicator is a cumulative measure of the total volume of funding disbursed by FIs to SMEs. It is disaggregated by loans, leases and gender.
2.	Portfolio at Risk – SME (Core) -Portfolio at Risk: Loans -Portfolio at Risk: Loans - Female-Owned Enterprises Portfolio at Risk: Leases -Portfolio at Risk: Leases - Female-Owned Enterprises	This indicator is an average measure of the percentage of non-performing loans to total portfolio. It is disaggregated by loans, leases and gender.
3.	Number of Loans/ Leases disbursed to SMEs (Intermediate Indicator) - Number of Loans Disbursed -Number of Loans Disbursed: Female-Owned Enterprises - Number of Leases Disbursed - Number of Leases Disbursed: Female-Owned Enterprises	This indicator is a cumulative measure of the total number of loans and leases disbursed. It is disaggregated by loans, leases, and gender.
4.	Number of SMEs that received training through a BDS Program (Intermediate Indicator) -Number of females that received training through a BDS Program	This indicator is a cumulative measure of the total number of enterprises that receive training through a BDS program. It is disaggregated by gender.
5.	Number of female beneficiaries participating within the client engagement survey (Additional Tracking)	This indicator captures the gender component for citizen engagement and use of satisfaction feedback in overall project implementation.
6.	Changes to project activities as a result of citizen engagement feedback technical note (Additional Tracking)	This indicator captures citizen engagement and use of satisfaction feedback in overall project implementation. Indicator is measured by “Yes/No”.

¹⁴ Information on these indicators will be regularly collected by the team during official Implementation Support Missions and used as an additional tool to help project’s management and implementation.

Annex 6.3: Detailed Activity Planning Template

	Activity	Timeline	Responsibility	Status on milestone date
Component 1:				
Task:				
Sub Task:				
Task:				
Sub Task:				
Component 2:				
Task:				
Sub Task:				
Task:				
Sub Task:				
Component 3:				
Task:				
Sub Task:				
Task:				
Sub Task:				
Component 4:				
Task:				
Sub Task:				
Task:				
Sub Task:				

Annex 6.4: Sample Activity Planning Template for procurement of goods and works and selection of consultants

6.4a Procurement of Goods and Works

Component: _____

Task: _____

No	Key Milestone Sub Tasks/Activities	Start Date	Finish Date	Responsible	Remark
1	Specification/design and preparation of bidding document				
2	Bid Announcement, Request for Quotations				
3	Receive Quotations				
4	Bid Evaluation				
5	Informing and acknowledgement of the supplier				
6	Negotiation and Contract Award				
7	Commencement of contract				
8	Delivery of goods/ Completion of works				

Note:

1. *Bank clearance should be obtained for prior review contracts.*
2. *Detail action plan should be prepared and agreed between client and contractor/supplier on implementation of the contract.*

6.4b Selection of Consultant (firm)

Component: _____

Task: _____

No	Milestone Sub Tasks/Activities	Start Date	Finish Date	Responsible	Remark
1	Preparation of Terms of Reference				
2	Request for Expression of Interest				
3	Receive Expression of Interest				
4	Short Listing				
5	Issuance of RFP				
6	Receive Proposals				
7	Technical and Financial Proposals Evaluation				
8	Negotiation and Contract Award				
9	Commencement of Service				
10	Completion of Service				

Note:

1. *Bank clearance should be received for prior review contracts.*
2. *Detail action plan should be prepared and agreed between client and consultant for implementation of the contract.*

6.4c Selection of Individual Consultant (IC)

Component: _____

Task: _____

No	Milestone Sub Tasks/Activities	Start Date	Finish Date	Responsible	Remark
1	Preparation of Terms of Reference				
2	Advertise/ long list and receive CVs				
3	Short Listing				
4	Receive Proposals				
5	Negotiation and Contract Award				
6	Commencement of Service				
7	Completion of Service				

Note:

1. *Bank clearance should be obtained for prior review contracts.*
2. *Detail action plan should be prepared and agreed between client and consultant for implementation of the contract.*

Annex 6.5: SMEFP Clients Registration and ID Process

I. Background

This brief note outlines the potential design of a registration system for SMEs that participate in the SMEFP project. An organized and effective registration system will be critical to the success of SMEFP activities. The registration process will enable the project to target activities to eligible SMEs, and to ensure that SMEFP loans, leases, and business development services are reaching the intended firms.

The registration system will produce a database which will enable project stakeholders to monitor and track the individual SMEs that are accessing the project over time, and to measure firm-level growth or changes as a result of participation in the SMEFP project.

II. Process

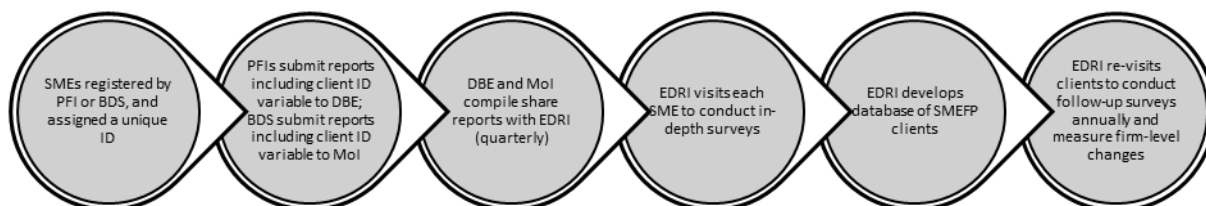
SMEs interested in accessing SMEFP services (loans, leases, business development services) will access these services either from Participating Financial Institutions (PFI) or from business development service providers (BDS). The project will be marketed and advertised by the PIU in FeSMMIDA, and by individual service providers. Interested SMEs will be invited to visit PFIs or BDS providers in their areas to learn more about products offered and to register for the program.

When SMEs visit a participating PFI or BDS, they will be issued a basic ID number. Each institution will have a code such as '01', '02', '03', etc. For example DBE may be institution '01' and each retail borrower would receive an ID number in ascending order, so the 400th DBE borrower would have the ID number 01-400. PFIs with multiple branches will need to have a coordinated system of issuing ascending ID numbers across branches to avoid duplicate IDs. Ideally, clients who access multiple SMEFP services will use the same ID they were initially assigned rather than be issued a new ID number for each service.

Project reports submitted by PFIs and BDS will list – at minimum - the ID number of the client, the name of the client and enterprise, the services rendered, and accurate contact information of the client. In the case of loans and leases, reports should include the amount of the approved loan/lease, the date disbursed, the loan/lease purpose, the branch, and the business sector, as per the credit facility agreements. In the case of BDS, the reports should include the type of BDS provided, whether the SME completed the BDS, and the date of completion. If any reports submitted by PFIs to DBE or by BDS providers to FeSMMIDA are missing any client IDs, these loans, leases or business development services rendered will be deemed ineligible and non-reimbursable until the ID is provided. Accurate reporting of addresses and phone numbers of clients will also be critical.

Each PFI or BDS will maintain a database of SMEFP clients that they serve, and their IDs. DBE and FeSMMIDA will compile reports from PFIs and BDS, respectively, and share the compiled reports on a periodic basis (quarterly?) with the Ethiopian Development Research Institute (EDRI). EDRI will then make follow-up visits to these SMEFP clients to administer surveys and gather more detailed information on the firms and their owners so that the project has strong and

reliable data on the make-up of SMEFP clients. The PFIs and BDS providers would need to alert SMEs of the future visit by EDRI to avoid clients refusing to participate in interviews. Each registrant will ideally be visited by EDRI within 90 days of receiving services from either PFI or BDS. Based on the reports from FeSMMIDA and DBE, EDRI will develop and maintain the central project database of clients. This database will enable ongoing monitoring of key statistics on SMEFP clients, such as sectoral or geographic breakdown, average size and type of firms, and personal characteristics of entrepreneurs. The database will also enable EDRI to re-visit registered clients annually and measure the extent to which participating firms are growing.



III. Sample ID Assignment Technique:

Institution ¹⁵	Type of Service	ID Code	Registration Numbers	Sample ID
ACSI	PFI	ACS	ACS0001 to ACS9999	ACSI-1242
DBE	PFI	DBE	DBE0001 to DBE9999	DBE-0332
XYZ Consulting Firm	BDS	XYZ	XYZ0001 to XYZ9999	XYZ-0128

IV. Illustrative list of Indicators to be included in SMEFP Client Database

- ID Number of client
- Name of entrepreneur and enterprise
- City and Location
- Personal information:
 - Age
 - Sex
 - Education level
 - Years of business experience
 - Borrowing history, etc.
- Enterprise information:
 - Business sector and sub-sector
 - Type of ownership (sole, partnership, PLC)
 - Starting capital
 - Annual earnings
 - Number and type of employees, etc.

¹⁵ These institutions are included for illustration purposes only, and do not represent selected PFIs or BDS providers

Clients Registration Form for Loan/Lease¹⁶	
s1	Name of the institutions that provide loan /lease to the firm: _____
s2	Branch number of the institution that provide loan/lease _____ Probe: must be three digit and code sheet will be provided to PFI officer
s3	Name of the recipient firm(retail borrower):
s4	What kind of SMEFP service the firm received? _____ can be multiple Code: 1=Loan 2= lease 3=BDS
s5	Recipient Firm (Retail borrower) _____ ID code Probe: ID code comprises the first three letters of the institution, three digit numbers of the institute branch and three number of the retail borrower in ascending order). Example. DBE 005 400
s6	TIN Number
s7	Ownership Structure of the Firm ____ Code: 1 = Private limited company 2= Partnership 3= Sole proprietorship 4=cooperative 5=other(specify)_____
s8	Number of owner: Total: ____ Female : ____ Male : ____
s9	Is the firm owner running the firm? ____ Code: 1=yes, 2=No
s10	Profile of the Entrepreneur or GM if more than one owner: a. Full name : _____ b. Age: ____ Sex: ____ Code : 1=Female 2=Male c. Marital status : ____ code : 1=Single 2=Married 3=Divorced/separated 4=Widowed/widower d. Years of experience in this business : ____ e. Highest educational level completed: ____ Code : 1=No education 2= Primary school 3= High school 4= Vocational training 5=Diploma (non-vocational) 6= BA (BSc) degree 7=MA/MSc and above
s11	If the firm is loan recipient ask the following questions a. Date of contract between sub borrower(lending institute) and the retail borrower(recipient firm) b. Date: ____ Month: ____ Year: ____ c. Amount of loan approved in ETB: _____ d. Date of loan disbursed Date: ____ Month: ____ Year: ____ e. Amount of loan disbursed in ETB: _____ f. What is the purpose of the loan? _____
s12	If the firm is lease service recipient ask the following questions a. Date of contract between the lease service provide and the lease recipient firm b. Date: ____ Month: ____ Year: ____ c. The monetary equivalent of the leased machinery and equipment in ETB: _____ f. What is the purpose of the leas service? _____
s13	Address of the firm: a. Region _____ b. Sub-city _____ c. Woreda _____ d. kebele _____ e. Local name _____ f. House no. _____
s14	Telephone Mobile _____ : Land line _____

16 The first five questions (s1 to s5) should be filled independently by the relevant PFI officer but the remaining 20 questions (s6 to s25) should be filled by interviewing the retail borrower (SMEFP service recipient).

Project Implementation Manual – SMEFP

s15	How many employees does this firm have currently? Total: ___ ___ Male : ___ ___ Female : ___ ___
s16	In which sector does this firm primarily operate? ___ ___ ___ Use code : 1=Food 2=beverages 3=Garment 4=Textile 5= Leather and leather products 6=Furniture 7= Chemical and chemical products 8= Machinery and equipment 9=metal and metal products 10=Non-metallic minerals 11. Paper products 12=other manufacturing (specify)----- 13. Tour and travel 14. Construction 15= other 9specify
s17	List out the major products that this firm produces? (maximum three) _____
s18	In what year did this firm begin operating? Year: ___ ___ ___
s19	Startup capital in ETB: _____ Birr
s20	Annual Earning in ETB In : Year 2015: _____ birr & Year 2016: _____ birr
s21	Have you received credit for this business over the last three years from MFI or Banks? Code: 1=yes, 2=No
s22	If yes to s21, how much is the current outstanding loan? _____ Birr

Clients Registration Form for BDS																										
s23	Name of the BDS service recipient firm:																									
s24	Kind and Duration of BDS service the firm received: Code for type of BDS service : 1= Skill Training 2 =technical training 3= Market promotion 4=Other (specify).....																									
	<table border="1"> <thead> <tr> <th>a. Types of BDS service</th> <th>b. For how many days the service was rendered?</th> <th>c. For How many hours per day on average?</th> <th>d. Name of BDS service provider</th> <th>e. Branch code of the BDS service provider Probe: must be three digit</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td></tr> </tbody> </table>	a. Types of BDS service	b. For how many days the service was rendered?	c. For How many hours per day on average?	d. Name of BDS service provider	e. Branch code of the BDS service provider Probe: must be three digit																				
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s25	<table border="1"> <tr> <td style="width: 20%;">ID code of the BDS service recipient Firm</td> <td> _____ </td> </tr> <tr> <td colspan="2">Probe: ID code comprises the first three letters of the institution, three digit numbers of the institute branch and three number of the retail borrower in ascending order). Example. DBE 005 400</td> </tr> </table>	ID code of the BDS service recipient Firm	_____	Probe: ID code comprises the first three letters of the institution, three digit numbers of the institute branch and three number of the retail borrower in ascending order). Example. DBE 005 400																						
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s26	TIN Number																									
s27	Ownership Structure of the Firm ____ Code: 1 = Private limited company 2= Partnership 3= Sole proprietorship 4=cooperative 5=other(specify)_____																									
s28	Number of owner: Total: ____ Female : ____ Male : ____																									
s29	Is the firm owner running the firm? ____ Code: 1=yes, 2=No																									
s30	Profile of the Entrepreneur or GM if more than one owner: a. Full name : _____ b. Age: ____ Sex: ____ Code : 1=Female 2=Male c. Marital status : ____ code : 1=Single 2=Married 3=Divorced/separated 4=Widowed/widower d. Years of experience in this business : ____ e. Highest educational level completed: ____ Code : 1=No education 2= Primary school 3= High school 4= Vocational training 5=Diploma (non-vocational) 6= BA (BSc) degree 7=MA/MSc and above																									
s31	Address of the firm: a. Region _____ b. Sub-city _____ c. Woreda _____ d. kebele _____ e. Local name _____ f. House no. _____																									
s32	Telephone Mobile ____ : Land line ____																									
s33	How many employees does this firm have currently? Total: ____ Male : ____ Female : ____																									
s34	In which sector does this firm primarily operate? ____ Use code : 1=Food 2=beverages 3=Garment 4=Textile 5= Leather and leather products 6=Furniture 7= Chemical and chemical products 8= Machinery and equipment 9=metal and metal products 10=Non-metallic minerals 11. Paper products 12=other manufacturing (specify)----- 13. Tour and travel 14. Construction 15= other 9specify																									
s35	List out the major products that this firm produces? (maximum three) _____																									
s36	In what year did this firm begin operating? Year: ____																									
s37	Startup capital in ETB: _____ Birr																									
s38	Annual Earning in ETB In : Year 2015: _____ birr & Year 2016: _____ birr																									
s39	Have this firm received BDS service over the last three years? ____ Code: 1=yes, 2=No																									

Annex 6.7

Small and Medium Enterprises Finance Project
Quarter/Annual Project Progress Reporting Template

Project Identification and Basic Information

Project Name	
Project ID No.	
IDA Credit No.	
Implementing Agency	
Contact Person and Address	
Project Duration	
Report Period	

1. Progress Summary

2. Planned Activities

Describe planned activities by component.

3. Achievement against Project Activities and Output/milestones

Describe results achieved by component in comparison with the planned activities and output/milestones. Use comparison table for project activities such as registration and SMEFP services targets and achieved results. Graphic presentation also can be used in the report.

4. Financial Report

5. Challenges and Project Responses

6. Summary of Next Period Plan

TERMS OF REFERENCE FOR AUDIT
For SME financing project implemented by FeSMMIDA

8. BACKGROUND

The project development objective of the project is to increase access to finance for eligible small and medium enterprises in Ethiopia. This will be achieved by the components: (i) Component 1: Financial Services to SMEs; (ii) Component 2: Enabling environment for SME Finance; (iii) Component 3: Business Development Services to SMEs; (iv) Component 4: Project's management, communication and impact evaluation.

FeSMMIDA will be implementing Components two, three and four of the project. The operational responsibility for the project implementation in the regions will rest with the REMSEDAs but no fund will be flowing to the regions.

FeSMMIDA is responsible for engaging the auditor the recipient of the audit report once finalized by the auditor. The accounting period covered by the audit is from July 8 to July 7.

9. OBJECTIVE OF THE PROJECT AUDIT

The objective of the audit of the Project Financial Statements (PFSs) is to enable the auditor to express a professional opinion(s) on the financial position of the project at the end of each fiscal year, and on funds received and expenditures incurred for the relevant accounting period.

The project books of accounts provide the basis for preparation of the PFSs by the project implementing agency and are established to reflect the financial transactions in respect of the project. The implementing agency maintains adequate internal controls and supporting documentation for transactions.

10. PREPARATION OF ANNUAL FINANCIAL STATEMENTS

The responsibility for the preparation of financial statements including adequate disclosure is that of FeSMMIDA. FeSMMIDA is also responsible for the selection and application of accounting policies. FeSMMIDA would prepare the PFSs in accordance with the financial rules and regulations of the federal government of Ethiopia.

The auditor is responsible for forming and expressing opinions on the financial statements. The auditor would carry out the audit of the project in accordance with the International Standards on Auditing (ISA), as promulgated by the International Federation of Accountants (IFAC). As part of the audit process, the auditor may request from the implementing agency written confirmation concerning representations made in connection with the audit.

4. SCOPE OF THE AUDIT

As stated above, the audit of the project will be carried out in accordance with International Standards on Auditing (ISA) promulgated by the International Federation of Accountants (IFAC), and will include such tests and auditing procedures as the auditor will consider necessary under the circumstances. Special attention should be paid by the auditor as to whether the:

- (a) World Bank financing (and all external financing where the World Bank is not the only financier) has been used in accordance with the conditions of the relevant financing agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided – please see *<state here clearly the relevant financing agreements>*;
- (b) Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
- (c) Goods, works and services financed have been procured in accordance with the relevant financing agreements including specific provisions of the [World Bank Procurement Policies and Procedures](#)¹⁷;
- (d) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) method of reporting. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;
- (o) Designated Accounts (if used) have been maintained in accordance with the provisions of the relevant financing agreements and funds disbursed out of the Accounts were used only for the purpose intended in the financing agreement;
- (p) National laws and regulations have been complied with, and that the financial and accounting procedures approved for the project (e.g. operational manual, financial procedures manual, etc.) were followed and used;
- (q) Financial performance of the project is satisfactory.
- (r) Assets procured from project funds exist and there is verifiable ownership by the implementing agency or beneficiaries in line with the financing agreement.

¹⁷ Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. In cases where such experts are involved, the auditor is expected to comply with provisions of [International Standard on Auditing 620: Using the Work of an Expert](#). Consideration to use of the work of experts should be brought to the early attention of the borrower and the World Bank for mutual agreement and appropriate guidance.

- (s) Ineligible expenditures included in withdrawal applications are identified and reimbursed to the Designated Accounts. These should be separately noted in the audit report.

In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters:

- i) ***Fraud and Corruption***: Consider the risks of material misstatements in the financial statements due to fraud as required by ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements. The auditor is required to identify and assess these risks (of material misstatement of the financial statements) due to fraud, obtain sufficient appropriate audit evidence about the assessed risks; and respond appropriately to identified or suspected fraud;
- j) ***Laws and Regulations***: In designing and performing audit procedures, evaluating and reporting the results, consider that noncompliance by the implementing agency with laws and regulations may materially affect the financial statements as required by ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements;
- k) ***Governance***: Communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity as required by International Standards on Auditing 260: Communication of Audit Matters with those Charged with Governance.
- l) ***Risks***: In order to reduce audit risk to an acceptable low level, determine the overall responses to assessed risks at the financial statement level, and design and perform further audit procedures to respond to assessed risks at the assertion level as required by Internal Standard on Auditing 330: the Auditor's Procedures in Response to Assessed Risks.

5. PROJECT FINANCIAL STATEMENTS (PFSs)

The auditor should verify that the project PFSs have been prepared in accordance with the agreed accounting standards (see paragraph 3 above) and give a true and fair view of the financial position of the project at the relevant date and of resources and expenditures for the financial year ended on that date

The Project Financial Statements (PFSs) should include:

- (a) A statement of funds received, showing funds from the World Bank, project funds from other donors and counterpart funds separately, and of expenditures incurred;
- (b) A summary of the activity in the Designated Account;
- (b) A Balance Sheet (if deemed necessary);

(m) A Summary of the principal accounting policies that have been adopted, and other explanatory notes;

(n) A list of material assets acquired or procured to date with project funds

As an Annex to the PFSs, the auditor should prepare a reconciliation of the amounts as “received by the Project from the World Bank”, with those shown as being disbursed by the Bank.

6. STATEMENT OF EXPENDITURES (SOEs)

In addition to the audit of the PFSs, the auditor is required to verify all SOEs used as a basis for the submission of loan withdrawal applications to the World Bank. The auditor will apply such tests and auditing procedures as considered necessary under the circumstances. Annexed to the PFSs should be a schedule listing individual SOE withdrawal applications by specific reference number and amount.

The total withdrawals under the SOE procedure should be part of the overall reconciliation of Bank disbursements described in paragraph 5 above.

7. DESIGNATED ACCOUNT

In conjunction with the audit of the Project PFSs, the auditor is also required to review the activities of the Designated Account associated with the project. The Designated Account usually comprises:

- Advance deposits received from World Bank;
- Replenishments substantiated by withdrawal applications;
- Interest that may have been earned on the accounts, and which belong to the recipient; and
- Withdrawals related to project expenditures

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year (or period). The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period, the operation and use of the DAs in accordance with the relevant general conditions, relevant financing agreements and disbursement letter, and the adequacy of internal controls for this type of disbursement mechanism.

For this Project, the Designated Accounts are referred to in the general conditions, the Financing Agreement (subsection 5.3) and Disbursement Letter (para. I).

The auditor should also examine eligibility and correctness of:

- Financial transactions during the period under review;
- Account balances at the end of such a period;
- The operation and use of the Designated Account in accordance with the financing agreement; and
- The adequacy of internal controls for the type of disbursement mechanism.

8. AUDIT REPORT

The auditor will issue an opinion on the project financial statements (PFSs). The annual audit report of the project accounts should include a separate paragraph highlighting key internal control weaknesses and non-compliance with the financing agreement terms.

9. MANAGEMENT LETTER

In addition to the audit report, the auditor will prepare a management letter, in which the auditor will:

- (a) Give comments and observations on the accounting records, systems and controls that were examined during the course of the audit;
- (b) Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;
- (c) Report on the degree of compliance of each of the financial covenants in the financing agreement and give comments, if any, on internal and external matters affecting such compliance;
- (o) Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project;
- (p) Give comments on the extent to which outstanding issues/qualifications issues have been addressed;
- (q) Give comments on previous audits' recommendations that have not been satisfactorily implemented; and
- (r) Bring to the recipient's attention any other matters that the auditor considers pertinent, including ineligible expenditures.

Ideally, the management letter should also include responses from the implementing agency to the issues highlighted by the auditor.

10. AVAILABLE INFORMATION

The auditor should have access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditor. The auditor will also obtain confirmation of amounts disbursed and outstanding at the Bank. Available information should include copies of the relevant: project appraisal document; financing agreement; financial management assessment reports; supervision mission reports and implementation status reports.

11. GENERAL

The financial statements, including the audit report, management letter and management response should be received by the Bank no later than six months after the end of the accounting year to which the audit relates.

The auditor should submit the report to the recipient's designated agent rather than to any staff member of the project entity. The agent should then promptly forward two copies of the audit report and accompanying statements to the Bank together with the management letter and management response.

It is highly desirable that the auditor becomes familiar with the Bank's Guidelines on Annual Financial Reporting for World Bank-Financed Activities, June 30, 2003, which summarizes the Bank's financial reporting and auditing requirements. The auditor should be familiar with World Bank Procurement Guidelines, which can be obtained from the project implementing agency. The auditor should also be familiar with the Bank's Disbursement Handbook for World Bank Clients, Disbursement Guidelines for Projects: May 2006 and updated in 2015. These documents are available on the Bank's website and could be obtained from the Task Team Leader.