Federal Small and Medium Manufacturing Industries Promotion Authority, GoE

The World Bank

Small and Medium Enterprises Finance Project SMEFP – Additional Finance

Project Implementation Manual

June, 2021
Addis Ababa

Table of Contents

Acronyms

AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
AWPB	Annual Work Plan and Budget
BDS	Business Development Services
CCIIDI	Chemicals and Construction Input Industrial Development Institute
CFAs	Credit Facility Agreements
CPS	Country Partnership Strategy
DA	Designated Account
DBE	Development Bank of Ethiopia
DRF	Derisking facility
EDC	Entrepreneurship Development Centre
EFC	E-commerce Fulfilment Center
EIB	European Investment Bank
EOI	Expression of Interest
EPHI	Ethiopia Public Health Institute
EPS	Ethiopian Postal Services
ESA	Ethiopian Standards Agency
ESMS	Environmental and Social Management System
FATF	Financial Action Task Force
FBPIDI	Food, Beverage and Pharmaceutical Industry Development Institute
FDRE	Federal Democratic Republic of Ethiopia
FeSMMIPA	Federal Small and Medium Manufacturing Industries Promotion Authority
FM	Financial Management
FSP	Financial Service Providers
GoE	Government of Ethiopia
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IDA	International Development Association
IFAC	International Federation of Accountants
IFRs	Interim Financial Reports
IOM	Internal Organization for Migration
ISA	International Standards on Auditing
LAT	Loan Approval Team
LC	Letter of Credit
LIDI	Leather Industry Development Institute
LOC	Line of Credit
M&E	Monitoring and Evaluation
MDIDI	Meat & Dairy Industry Development Institute
MIDI	Metal Industry Development Institute
MINT	Ministry of Innovation and Technology
MFI	Micro Finance Institution
MIS	Management Information System
MoA	Ministry of Agriculture
MoF	Ministry of Finance
MoI	Ministry of Industry
MoT	Ministry of Trade

MSE	Micro and Small Enterprise
MSME	Micro, Small and Medium Enterprise
MTR	Mid-Term Review
NBE	National Bank of Ethiopia
NGO	Non-Governmental Organization
NIM	National Implementation Modality
NPLs	Non-Performing Loans
OCSSCO	Oromia Credit and Saving Share Company
OM	Operations Manual
ORE	Operational Readiness for E-commerce
PAD	Project Appraisal Document
PDO	Project Development Objectives
PFEA	Public Financial Enterprises Agency
PFIs	Participating Financial Institutions
PFSs	Project Financial Statements
PIC	Project Implementation Committee
PIM	Project Implementation Manual
PIR	Project Implementation Report
PIU	Project Implementation Unit
PM	Project Manager
PMT	Project Management Team
PP	Procurement Plan
PPR	Project Progress Report
PSC	Project Steering Committee
ReSMMIPAs	Regional Small and Medium Manufacturing Industries Promotion Authorities
SFA	Subsidiary Financing Agreement
SMEs	Small and Medium Enterprises
SMEFP	Small and Medium Enterprises Finance Project
SMEFP-AF	Small and Medium Enterprises Finance Project - Additional Finance
SOEs	Statement of Expenditures
SPN	Special Procurement Notice
TA	Technical Assistance
TC	Tender Committee
TCA	Technical Cooperation Agreement
TIDI	Textile Industry Development Institute
TOR	Terms of Reference
TVET	Technical and Vocational Education and Training
UNCDF	United Nations Capital Development Fund
UNDB	United Nations Development Business
UNDP	United Nations Development Programme
UPU	Universal Postal Service
USD	United States Dollar
VMP	Virtual Market Place
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 - Additional Finance which is financed by the World Bank, the International Development Agency (IDA) credit to the Government of Ethiopia with close coordination and technical assistance of IFC particularly on SMEs enabling environment being implemented by National Bank of Ethiopia.

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 SMEFP Additional Finance.

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

This PIM shall be used by all persons involved in administrative, financial management and implementation of SMEFP-AF that are operating with financial resources of the International Development Association.

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-AF 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 SMEFP-AF only by prior agreement with the implementing agencies and the World Bank.

1.2 Project Background

i) SME Finance Project (the parent project, P148447)

The SMEFP is a sustainable, long-term intervention helping to transform the way that Ethiopia's financial institutions serve SMEs. The SMEFP aims to increase access to finance for SMEs in Ethiopia through:(a) providing credit lines that through demonstration effect helped create new markets, (b) delivering business development services (BDS), and (c) enhancing the enabling environment for SME finance. The line of credit for the parent project has two lending windows: (a) a leasing window which provides capital goods lease finance to SMEs directly through the Development Bank of Ethiopia (DBE) and (b) a working capital window that provides wholesale finance to banks and microfinance institutions for on-lending to SMEs. To complement the credit line, a tailored TA is given to all participating financial institutions (PFIs) to help them serve SMEs better. The target beneficiaries for the project are SMEs in manufacturing, agribusiness, tourism, and construction sector. The project is financed by an IDA US$200 million investment lending operation, with an additional €70 million of co-financing from the European Investment Bank (EIB).

The overall implementation progress of the project is rated 'Satisfactory'. The total disbursement of the project stands at US$218 million, out of which US$170 million is from IDA while the remaining US$48 million is from EIB. The project is well on track to fully disburse the credit line in FY21, ahead of the project end date of August 2022. By December 2020, a total of 1,452 SMEs benefited from the SMEFP's credit line and 218 SMEs benefitted from business development services. SMEs under the project have demonstrated their ability to grow and contribute to the economy through a range of activities including manufacturing, agro-processing, and construction. In total, these firms employ about 50,000 workers apart from forward and backward links with large firms and suppliers, which further enhance the economic impact. A total of 92 percent of the capital goods lease finance went to SMEs in the manufacturing and agribusiness sector which plays an important role in boosting the productive base of the country.

While a rigorous impact evaluation on firm-level impacts is under way, loan applications and project monitoring data reveal that on average, SMEs financed by the project created two new jobs for every US$25,000 investment. Based on this estimate, the project helped SMEs create more than 17,000 jobs to date, apart from helping retain more than 50,000 existing jobs. As the funding revolves and gets rechanneled for multiple rounds of loans, the project creates an asset that creates multiplier effects. The average loan size from the project is US$285,000 for lease finance and US$76,000 for working capital loan, enabling support of growth-oriented firms.

Another key objective of the project was to expand access to long-term finance, because most loan tenors on the market did not exceed 24 months. The tenor for 93 percent of loans from the leasing window is five years or above—providing access to long-term finance to SMEs which was previously nonexistent in the market thereby creating a new market both in terms of the tenor as well as the product. Moreover, by channeling wholesale finance from the DBE to private banks and microfinance institutions (MFIs) for on-lending to SMEs, the project circumvented a potential crowding-out effect of providing working capital loan directly by the state-owned DBE. Moreover, the DBE has a repayment rate of 100 percent on its wholesale window which allows the use of reflows for new financing, thereby ensuring the sustainability of this operation.

The project contributed to efforts towards building a robust market for SME finance by developing capacity and links with 15 participating banks, nine MFIs, and one leasing company after providing tailored TA in developing appropriate loan products and appraisal processes for SMEs, among other topics. The TA has helped by building the capacity of financial institutions to better serve SMEs which were largely ignored previously. Though more remains to be done, the project helped initiate the path for the financial sector to better serve the SME market. For instance, to serve SMEs trapped in the 'missing middle', the project supported participating MFIs to 'upscale' their operation from their primary focus on micro enterprises and for banks to 'downscale' their operations from their primary focus on large enterprises—filling the gap which was left in the middle from both ends. Out of the 15 participating banks in the project, 9 established new 'SME finance' units, thereby enhancing the foundations to build market capacity to serve the SME segment.

The project also supported market infrastructure, a crucial ingredient to foster sustainable financing of SMEs. A key achievement for the project was the launch of electronic movable collateral registry. The project financed hardware and software for the movable collateral registry and this registry went 'live' in March 2020. The value of collateral required for loan in Ethiopia is astoundingly high at 323 percent for small enterprises as reported in the Enterprise Survey (2015). Moreover, financial institutions rely excessively on fixed assets (which SMEs often lack) as a collateral. The operationalization of electronic movable collateral registry will help diversify the collateral options for SMEs and also help reduce the value of collateral required. Operationalization of movable collateral registry is also one of the actions for the emergency Development Policy Operation and it is proposed to support its implementation through this AF, thereby leveraging different World Bank instruments to create sustainable impact on financial markets.

Lessons learned from the implementation of the project provide useful guidance on improving implementation of the AF. Targeting and frequency of TA can be improved to ensure smooth implementation. In addition, improvements are needed in the preparation and use of policy and procedural documents. These need revision to include solutions to issues that arose during the implementation. Definitional issues regarding SMEs need to be addressed to remove ambiguities. The project also needs mitigations measures for some external bottlenecks that constrained lease-financed firms. Evaluation of the project based on a baseline data and maintenance of database of credit can be improved as well.

In response to the COVID-19 pandemic, the project has expedited disbursement to respond to increased liquidity needs of SMEs that are otherwise viable but have been affected by the pandemic. The project has also repurposed funds from leasing finance to working capital loan as the latter is what the market needs in times of this crisis. In line with this, the project changed its disbursement to PFIs from reimbursement basis to advance payment, temporarily relaxed the 5 percent NPL threshold which is one of the eligibility criteria for PFIs (although a careful watch on NPLs remains a focus), added the number of PFIs, and started providing online TA to PFIs.

ii) SMEFP Additional Finance (P175045)

The Small and Medium Enterprises Finance Project Additional Finance (SMEFP-AF) is designed to leverage the SMEFP's proven project infrastructure to scale up the provision of financing and business services to viable small and medium enterprises (SMEs) that have the potential to grow but are unable to access financing or that have been adversely affected by the coronavirus disease 2019 (COVID-19) pandemic but remain viable if supported through this difficult downturn period. The segment of firms being targeted are crucial for Ethiopia's growth, in terms of their contribution to jobs, innovation, key role in supply chains, and trade logistics. Not supporting this vital part of the economy will likely mean loss of jobs; a slower path to economic recovery; and loss of financial, social, and institutional capital as firm-level liquidity constraints—which could have been addressed for the otherwise viable firms—turn to solvency issues. The SMEFP Additional Finance aims to support liquidity, including through leveraging US$100 million private capital through a mix of financial instruments while also building for the future through investments in technical assistance (TA), market infrastructure, enabling environment- and demand-side interventions to enhance productivity. The parent project SMEFP has an overall rating of 'Satisfactory' and is compliant with all project covenants, including audit and financial reporting requirements. The project's disbursement from its initial International Development Association (IDA) financing stands at 85 percent and the project is on track to fully disburse the remaining balance well ahead of the end date of the parent project (August 31, 2022). To respond to the urgent financing need to support the SME businesses during the crisis, the World Bank has invoked paragraph 12 of the Investment Project Financing (IPF) policy for additional flexibility in processing in cases of urgent need of assistance. The AF is prepared under OP 4.03 (Performance Standards for Private Sector Activities), as for the original project

1.3 Description of Additional Finance

i) Project Development Objectives (PDO) and Project Beneficiaries

PDO. The PDO is to increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic. The PDO of this AF is changed from the parent project to reflect the COVID-19 response angle. The detail change is captured on Table 1 below.

PDO-level results indicators. The progress toward the PDO will be measured by the following 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 DRF; (c) Number of SMEs with business development service; and (d) Portfolio Quality under the credit facility. Proposed intermediate indicators are highlighted in the Results Framework under section VIII. The intermediate indicators are gender disaggregated as much as feasible. Changes has been made to the indicators of this AF (as compared to the Parent Project) to reflect the increased scale and scope of operation, add gender disaggregated indicators, and reflect revised closing date of the project. Changes in the result indicators of this AF are reflected on section 'VI' of this project paper.

Table 1: Summary of Major Changes

Item	Parent Project	Additional Financing	Reason
PDO	The PDO is to increase access to finance for eligible small and medium enterprises in Ethiopia	The PDO is to increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic.	The PDO is revised to reflect the COVID-19 response angle of the project and capture the firm capability interventions of the project
Closing date	August 31, 2022	August 31, 2025	The closing date for the AF is extended by three years to absorb the additional financing and allow adequate time to implement the newly added activities.
Changes to the results indicators			
PDO Indicators	Volume of Financial Support to SMEs under the credit facility	Volume of Financial Support to SMEs under the credit facility and DRF	Revised to capture results from the DRF
	Number of SMEs Reached with Financial Services under the credit facility	Number of SMEs Reached with Financial Services under the credit facility and DRF	Revised to capture results from the DRF
	Beneficiaries reached with financial services		Marked for deletion: This is redundant; same as the indicator above.
	Portfolio Quality under the credit facility	Portfolio Quality under the credit facility	Revised: Target for the result indicator extended through 2025
		Number of SMEs served with business development service	New: added to capture results from scaled up BDS activities
Intermediate Indicators	Number of Loans/ Leases disbursed to SMEs under the credit facility	Number of Loans/ Leases disbursed to SMEs under the credit facility	Revised: Target for the result indicator extended through 2025
		Percentage of women-owned SMEs benefiting from the credit line and DRF	New: added to capture gender disaggregated data

Item	Parent Project	Additional Financing	Reason
	Collateral Registry Established	Collateral Registry Operationalized	Revised to make the indicator stronger and target for the result indicator extended through 2025
		Strengthened capacity of DBE for risk assessment and management of innovative financial products. (Yes/No)	New: Added to capture results from the institutional development work
	Insolvency Diagnostic Completed	Insolvency Regime revised and approved by the Parliament	Revised to make the indicator stronger and target for the result indicator extended through 2025
	Report drafted on citizen engagement survey	Citizen Engagement Survey Conducted	Revised as per the text from CE team
	Number of SMEs that received training through a BDS Program under the project	Number of SMEs that received training through a BDS Program under the project	Revised: Target for the result indicator extended through 2025
		Number of women owned SMEs that received business development service	New: Added to capture gender disaggregated data
		Number of supported SMEs that subscribed to the e-commerce platform	New: Added to capture results from new activities
		Business Information Center launched	New: Added to capture results from new activities
		Number of federal and regional investment and trade support institution staff trained on export promotion, business diplomacy etc.	New: Added to capture results from new activities
		Private Participation model for management and operation of SME market and production sites developed	New: Added to capture results from new activities

Project beneficiaries. The project beneficiaries will be eligible SMEs. "SMEs" means small and medium enterprises [that employ between 6 to 100 employees including both permanent and temporary workers, as set out in this PIM and as such definition may be updated from time to time.

ii) Project Description

This AF focuses on increasing access to finance and building firm capabilities for eligible SMEs in Ethiopia, with a focus on responding to the COVID-19 pandemic. Activities supported by the AF will build on the SMEFP's current project objective and activities. The PDO, project components, and implementation arrangements will remain materially the same.

While the PDO and components remain materially the same, several adaptations of activities are envisioned to respond to the impacts of COVID-19 on SMEs. New approaches and instruments are introduced or proposed to be developed; new activities are added; and existing activities are redesigned to respond to the COVID-19 crisis. Some of these changes include the following:

(a) **Derisking Facility.** The high perceived risk of lending to SMEs in general (aggravated by information asymmetry) makes lenders reluctant to lend to this underserved segment. The COVID-19 crisis has compounded this challenge with balance sheets of many SMEs getting strained. While a flight to safety is understandable, it harms those firms that are otherwise viable (under normal business conditions) and could substantively contribute to growth and recovery if supported. To bolster the countercyclical response, the AF will set up a derisking facility (DRF) to share credit risks associated with lending to existing and new productive SMEs and through it contribute to business continuity and jobs.

(b) **Leveraging private capital.** The project targets to leverage more than US$60 million private capital through counterparty contributions by PFIs and external lenders and an additional capital up to US$40 million through the DRF. In total, the project aims to leverage US$100 million additional private capital. As part of the credit facility agreement, PFIs will commit to match one-third of the financing from their own source, thereby contributing to the private capital mobilization, which is a World Bank corporate mandate and also helps enhance the sustainability of the project initiatives.

(c) **Digital solutions.** Digital technology offers an unprecedented opportunity to mitigate the impact of the COVID-19 crisis on SME financing. The TA to be provided under this AF envisages enabling simplified loan application processes and use of alternative data for credit decision which will be leveraged to reduce turnaround times of SME loans. Moreover, e-commerce platforms will be leveraged to support the business expansion of SMEs. The project will also provide digital financial literacy training to SMEs to build their knowledge and skills, which is required to succeed in a technology-driven business world. Recent reform measures to digitize financial services including increasing the use of bank interoperability and upgrading of the national payment switch (Eth-Switch) will further augment SMEs' service provisions.

(d) **Leveraging credit market infrastructure.** The project will leverage the market infrastructures established by the parent project and other WBG projects, notably the movable collateral registry, CRB, and e-payments systems and build incentives to improve access to finance and crowd in private capital while enhancing the use of market infrastructure. Doing so will contribute toward enhancing sustainability of project interventions and containing credit risks, relevant for both the short term as well as for long-term sustainability and efficiency of credit markets.

(e) **Build firm capability and facilitate access to market.** Above and beyond what firms can do to stay in the SME game, governments have many instruments to foster market and ecosystem conditions for SMEs. The GoE plans[1] to transform the business ecosystem and build vibrant, growth-oriented micro, small, and medium enterprises (MSMEs) through: (i) remodeling government support to incentivize enterprise growth and self-reliance, (ii) improving the quality of BDS, (iii) improving local value chains and market links through horizontal and vertical integration, (iv) improving the competitiveness and access to technology for MSMEs, and (v) improving the business environment for MSMEs. To address the market condition of Ethiopian SMEs, the project will strengthen their business ecosystem and build firm capabilities and support the Government in introduction of enabling new policies, regulations, and strategy documents that can define and support some of these objectives to help build stronger, more competitive, and resilient SMEs in the future.

(f) **Targeting 'graduates' from the Women Entrepreneurship Development Project (WEDP).** Some of the growth-oriented entrepreneurs that were targeted under the WEDP have graduated from a relatively small-ticket working capital loan provided by MFIs to high-ticket and diversified loan products from various financial institutions (banks, MFIs, and leasing companies). With a pre-COVID-19 repayment rate of above 99 percent, the women entrepreneurs segment proved to be a viable business segment and it makes a good business case for PFIs to cater their services to this underserved business segment. Against this background, this AF places a special focus to target women entrepreneurs for a wide range of financial services provided under this project (leasing, working capital loan, and other innovative loan products to be developed through this project).

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).

1.4 Project Components

As the parent project, activities for the AF will be structured under three mutually reinforcing components: (a) Component 1: Financial Services to SMEs, (b) Component 2: Enabling Environment for SME Finance, and (c) Component 3: Business Development Services (BDS) to SMEs. These components are fully aligned with the World Bank's Jobs and Economic Transformation Framework as well as its approach to the COVID-19 response.[2]. The liquidity enhancement intervention will entail a relief and restructuring response as well as supporting resilient recovery by taking advantage of new opportunities to build a more sustainable, inclusive, and resilient future in a world transformed by the pandemic. Strengthening the

[1] The Job Creation Commission's Plan of Action for Job Creation details what the Government plans to do to transform the business ecosystem.

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

enabling environment and BDS will support recovery through enhancing firm capability, market access, and modernizing business processes. Digital innovation and women economic empowerment will be an underlying and cross-cutting element across the three components. These interventions are particularly relevant to the immediate COVID-19 response even while they are also enabled to support medium-term economic recovery through building the productive base of the country.

Component 1: Financial Services to SMEs (US$180 million)

The objective of Component 1 is to provide liquidity support to SMEs through a credit line and DRF, including potentially through receivables financing. The project will target viable/growth-oriented SMEs. The incentive for targeting viable SMEs will be captured in the eligibility criteria to be defined in the Project Operations Manual and are also built into the design of the financial instruments—PFIs share risks and rewards as the credit risk from the loan is borne by the respective financial institution. TA on credit appraisal including use of alternate sources of data to assess risk, past credit history, and sector analysis will be supported (see Subcomponent 1c).

Subcomponent 1a: SME lending (US$173 million). This subcomponent is expected to channel IDA funds mainly for working capital loan and leasing finance for on-lending to eligible SMEs. The DBE will provide lease finance to SMEs both directly through its regional branches and indirectly through eligible lease companies operating in the country. The DBE will also provide wholesale finance to commercial banks and MFIs for on-lending to eligible SMEs. To encourage on-lending to women-owned SMEs which proved to be a viable business segment, the DBE will incentivize PFIs by making interest rate discounts on the portion of funds channeled to women entrepreneurs. Additionally, coordination arrangements to target graduates of the WEDP will be facilitated. PFIs will be required to match a certain portion of their funding from their own source thereby leveraging additional private capital for on-lending to SMEs. The DBE will assume the risk of on-lending to PFIs and will determine interest rates and other terms for the wholesale finance. Overall, the wholesale pricing strategy should serve the purpose of attracting eligible PFIs to participate in the scheme at a sufficient margin, while enabling the provision of more affordable finance to SMEs. The PFIs will assume the full credit risk for their SME portfolio under the project and will be free to determine the loan terms of the sub-loans. Details of implementation arrangements for the credit line will be elaborated in the Project Operations Manual.

IDA funds are expected to be channeled as senior debt from DBE to PFIs, though the AF will explore the feasibility of piloting a part based on market need as junior debt or other innovative loan products to crowd in market financing. The junior component to PFIs will be structured appropriately on a portfolio basis to enable sharing of risks with lenders, likely on a first-loss basis for on-lending to eligible SMEs. The product innovations are aimed at better pricing for

SMEs, unlocking the supply potential of external financing[3] for Ethiopia's financial sector and through it support innovation and knowledge transfer benefiting the SME finance ecosystem. Should this product development materialize, the Project Operations Manual will be updated for piloting under the credit line. A description of potential financial product innovations that will be explored under the AF is provided in annex 4.

Subcomponent 1b: Derisking Facility (US$6 million). This subcomponent will set up a facility to share risks associated with new lending to SMEs especially given heightened economic uncertainty driven by COVID-19. A DRF will help lower credit risk by absorbing a portion of the lender's losses on eligible loans made to SMEs in case of default. Such derisking will help increase lender appetite for SME financing and reduce the requirement of collateral. The DRF will incentivize superior data monitoring and reporting standards, safeguards, and gender practices in SMEs through establishing clear sub-loan eligibility criteria for PFIs. The design of DRF aims to optimize leverage with sustainability of the facility. The DRF mechanism can potentially be scaled up and adapted by the DBE for wider reach outside the SMEFP AF project boundaries. The DBE may also build on the structure of the DRF mechanism under this project to support other World Bank projects that are envisaging a guarantee facility (such as is being considered under the Economic Opportunities Project: P163829). The DRF is being designed using a learning and piloting approach for future scalability and crucially, to inform design of the GoE's proposed partial credit guarantee scheme for SMEs. The proposed features of the DRF are highlighted in Annex 4 with details on agreed structure, terms, and implementation arrangements documented in the DRF Operations Manual. The DRF design is guided by the Principles for Public Credit Guarantee Schemes for SMEs which is developed by the World Bank and FIRST Initiative. [4]

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

[3] Leveraging NBE's Directive https://nbebank.com/wp-content/uploads/pdf/directives/bankingbusiness/sbb-77.pdf. External lenders can be from international financial institutions, including IFC.

[4] The World Bank and FIRST Initiative. 2015. *Principles for Public Credit Guarantee Schemes for SMEs*. Washington, DC: World Bank.

Component 2: Enabling Environment for SME Finance (US$3 million)

With the financial and technical support of the parent project and IFC advisory, Ethiopia introduced the movable property collateral registry system in early 2020. Moreover, another World Bank project[5] from 10 years ago financed the establishment of a CRB and for the past five years, IFC has been providing TA to strengthen the existing credit information system. However, the credit information system is far from optimal and more needs to be done to ensure financial institutions utilize the infrastructure to inform their credit decisions as well as to expand range of products and services. Hence, by leveraging the financial infrastructures built by the WBG, this component aims to strengthen financial institutions' utilization of credit information to inform credit decisions as well as to support the development of new financial products, and spur SME financing.

Subcomponent 2.1 (US$1 million): Strengthening the credit information systems and ensuring utilization by financial institutions.[6] The current credit information system in Ethiopia is operating sub-optimally as evidenced by low coverage, limited referencing perimeter, and lack of value-added products. The system is also fraught with serious operational, human capital, and IT challenges which has affected the integrity of data and the system efficiency and reliance placed on the system by credit providers. Against this background, this subcomponent aims to complement the ongoing and upcoming IFC advisory work by supporting the digitization phase of the credit reporting system by financing the development of an integrated digital lending platform that has lending, scoring and data submission capabilities**.** This AF, complemented by IFC advisory services, will: (a) provide TA to the NBE to enhance the regulatory, legal, and supervisory framework that underpin the establishment and supervision of a private credit bureau; (b) support the development and deployment of value-added products and services such as scoring; monitoring, benchmarking, and bulk inquiry functionality; (c) capacitate MFIs (with TA and digitization); and (d) support the modernization of the NBE Credit Bureau to make it a tool that can support the institutional mandate for the Central Bank including data-driven policy formulation and micro and macroprudential supervision.

Subcomponent 2.2 (US$2 million): Development of Movable Asset Based Lending. Though the legal and regulatory framework for electronic movable collateral registry system is in place, much remains to be done to ensure financial institutions fully utilize the framework to develop range of asset-backed lending products and services The existing movable properties security rights legal and institutional foundations can be used to develop and roll out asset-backed financing products which are aimed at reducing the high loan collateralization rates. In light of this, this subcomponent will identify and fill gaps in the movable asset-based lending ecosystem including developing the industry and market. In general, the ecosystem consists of

[5] Financial sector capacity building project (P094704)

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

three main areas: (a) development of new financial products, (b) development and deployment of electronic platforms, and (c) movable property valuation expertise.

This AF, complemented by an IFC TA project which is being rolled out concurrently with this program, will support the development of movable asset-based lending industry which will include the development of financial products such as supply chain financing platforms, invoice discounting, factoring and reverse factoring, leasing, and warehouse receipts financing, which will be informed by the outcomes of a countrywide assessment to be conducted first. A portion of the credit line from Component 1 will be allocated for new movable asset-based lending products targeting SMEs and the program will also strengthen the supporting technical infrastructure and electronic platforms necessary to deploy these new financial products. This window will also support development/deepening of secondary markets for movable assets by providing the necessary technical infrastructure, for example, electronic auctions or online liquation platforms to dispose of assets which have been repossessed in the event of borrower default.

Component 3: Business Development Services (BDS) to SMEs (US$15 million)

This component aims to build firm capabilities through selected value chains and broaden SMEs' access to market by implementing a firm capability-building program and e-commerce platform in Ethiopia. Three priority sectors of MoTI (textile/garments, agro-processing, and furniture) will be targeted and value chain support for participating SMEs will be provided. Specific value chain considerations will be detailed in the Project Implementation Manual. This component will be delivered through international or local partnerships between international and local service providers. The beneficiary SMEs and their backward-linked suppliers will be selected through open invitation/calls for participation in the firm capability-building program. Beneficiaries of SMEs in Component 1 and 2 will also be included in the support under Component 3. The component brings international best practices[7] considering lessons learned from the experience to date for improving SMEs' access to local and international markets—including supplying to industrial parks. Details of each of the activities of the BDS component are included in annex 3.

Subcomponent 3.1: Building firm capability (US$3.5 million). Building on the BDS component of the parent project, this subcomponent aims to support SMEs and their linked suppliers in the targeted sectors with the provision of tailored business advice and technical trainings. The business advice will help build capacities of SMEs and their linked suppliers to develop bankable business plans; improve quality of financial statements and records; and better manage risks, business management, entrepreneurship, marketing strategy, and human resource management. Participating SMEs will be trained on digital tools that improve their record keeping, financial analysis, and so on and boost their online presence. The business advice will

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

also include technical skills training on new product development, production efficiency, technology adoption, and so on. This activity entails bringing a pool of international technical experts in the targeted sectors to provide demand-driven on-the-job technical training using the machinery and equipment of the participating SMEs and their linked suppliers. There are Government institutes who are established to provide capacity building to SMEs which include Textile Industry Development Institute, Leather Industry Development Institute, Metal Industry Development Institute, Food, Beverage and Pharmaceutical Industry Development Institute, Chemicals and Construction Input Industrial Development Institute, Meat & Dairy Industry Development Institute, Regional and Federal TVET Colleges and Entrepreneurship Development Centre (EDC). These institutes are organized to cater such services and are equipped with the necessary qualified and experienced personnel and equipment and are well placed locally to support in such capacity building endeavors under the project. Hence apart from deploying qualified international consultants, FeSMMIPA shall engage these institutes for the provision of BDS services to SMEs as appropriate. The project will assess the capacity of Entrepreneurship Development Center (EDC)8 and works with them on areas where the EDC has strong experience. The remaining business and technical advice/support will be given by international service providers or a combination of international and local service providers.

Subcomponent 3.2: Increasing access to market (US$5.5 million). This subcomponent will support participating SMEs in the value chain on business matchmaking to enable a long-term business-to-business relationship with selected international buyers or local suppliers of inputs. A Business Information Center that provides access to business information to all SMEs and their international/local buyers in Ethiopia will be established at FeSMMIPA. Finally, by building the capacities of federal and regional investment and trade support institutions, export promotion agencies, and business diplomacy, the program will enable the Government to provide better services to SMEs in the targeted sectors. The activities under this subcomponent could be delivered by consultancy/training firms hired in Subcomponent 3.1 or through new service providers.

Subcomponent 3.3: Broaden access to market through digital solutions (US$6 million). This subcomponent will establish a web-based e-commerce platform that will broaden access to markets for beneficiary SMEs. Other businesses in Ethiopia will also be able to utilize this e-commerce platform for selling their products online. As part of the project's COVID-19 response, the e-commerce platform will support SMEs to increase their market opportunities through digital means. The products that are transacted on the e-commerce platform can be physically distributed using the networks of EPS which already has more than 1,000 branches in Ethiopia. These branches and existing networks will be leveraged by the project for expanding

[8] The EDC is a quasi-governmental entity established under the framework of the Entrepreneurship Development Program. To facilitate the realization of the entrepreneurship development goals set in the government's GTP, the GoE, represented by the Ministry of Urban Development and Housing, in partnership with the United Nations Development Programme, formulated and introduced an innovative entrepreneurship and enterprise development initiative, namely the Entrepreneurship Development Program.

market access for SMEs by enhancing volume and quality through a low marginal cost. The e-commerce platform will be designed, tested, and launched by a service providing firm or in business partnership (joint venture [JV] with an experienced partner that has successfully implemented such a platform in other countries with similar/comparable situation as Ethiopia. As part of its assignment, the firm will build the of EPS's in-house IT professionals to effectively run the platform. After the e-commerce platform is launched, and if the platform is done by a service providing firm, EPS will competitively select private IT companies and outsource the operation and management of the platform. If the platform is implemented in a JV with a partner, EPS and the partner will work out a sustainable business deal that benefits both the partners.

Component 4: Project Management, Communication and Impact Evaluation (US$2 million)

The objective of Component 4 is to support overall coordination of project activities and conduct impact evaluation. The two main implementers of the project will be the DBE and FeSMMIPA. The Project Management Team (PMT) at the DBE and the Project Implementation Unit (PIU) which is housed at FeSMMIPA will be strengthened to effectively manage project activities. Like the parent project, the DBE will be responsible for managing the credit facility under Component 1 while the PIU will have the mandate of overall project coordination and direct responsibility of Components 2, 3, and 4. The NBE has assigned a focal person that will act as the key technical referent of the PIU for market infrastructure and regulatory reform related activities. The additional financing budget by component/sub component and the total project cost of parent project including European Investment Bank (EIB) and additional finance are presented below in Table 2 and Table 3 respectively.

Table 2: Additional Financing Budget

Component	Subcomponent	Amount
1. Financial Services to SMEs	1a. SME lending 1b. Derisking facility 1c. Technical Assistance ***Sub-total Component 1***	US$173 million US$6 million US$1 million **US$180 million**
2. Enabling Environment for SME Finance	2a. Strengthening the credit information systems and ensuring utilization by financial institutions 2b. Development of Movable Asset Based Lending ***Sub-total Component 2***	US$1 million US$2 million **US$3 million**
3. Business Development services (BDS) to SMEs	3a. Building firm capability 3b. Increasing access to market 3c. Broaden access to market through digital solutions ***Sub-Total Component 3***	US$3.5 million US$5.5 million US$6 million **US$15 million**
4. Project Management, Communication and Impact Evaluation		US$2 million
		Total: US$200 million

Table 3: Total Cost of Parent Project and Additional Finance

Components	Total Project Cost (US$)	EIB (parent Project) Equiv. US$	IDA Financing		
			Parent Project Reallocated (US$)	Additional Financing (US$)	Total (US$)
1. Financial Services to SMEs a) SME Lending	442,000,000	76,000,000	193,000,000	173,000,000	366,000,000
b) Derisking Facility	6,000,000			6,000,000	6,000,000
c) Technical Assistance	1,000,000			1,000,000	1,000,000
2. Enabling Environment for SME Finance a) Strengthening the credit information systems and ensuring utilization by financial institutions	1,000,000			1,000,000	1,000,000
b) Development of Movable Asset Based Lending	3,870,000		1,870,000	2,000,000	3,870,000
3. Business Development Services for SMEs a) Building Firm Capability	5,765,400		2,265,400	3,500,000	5,765,400
b) Increase Access to Market	5,500,000			5,500,000	5,500,000
c) Broaden Access to Market through Digital Solution	6,000,000			6,000,000	6,000,000
4. Project Management, Communication and Impact Evaluation	4,864,600		2,864,600	2,000,000	4,864,600
TOTAL	**476,000,000**		**200,000,000**	**200,000,000**	**400,000,000**

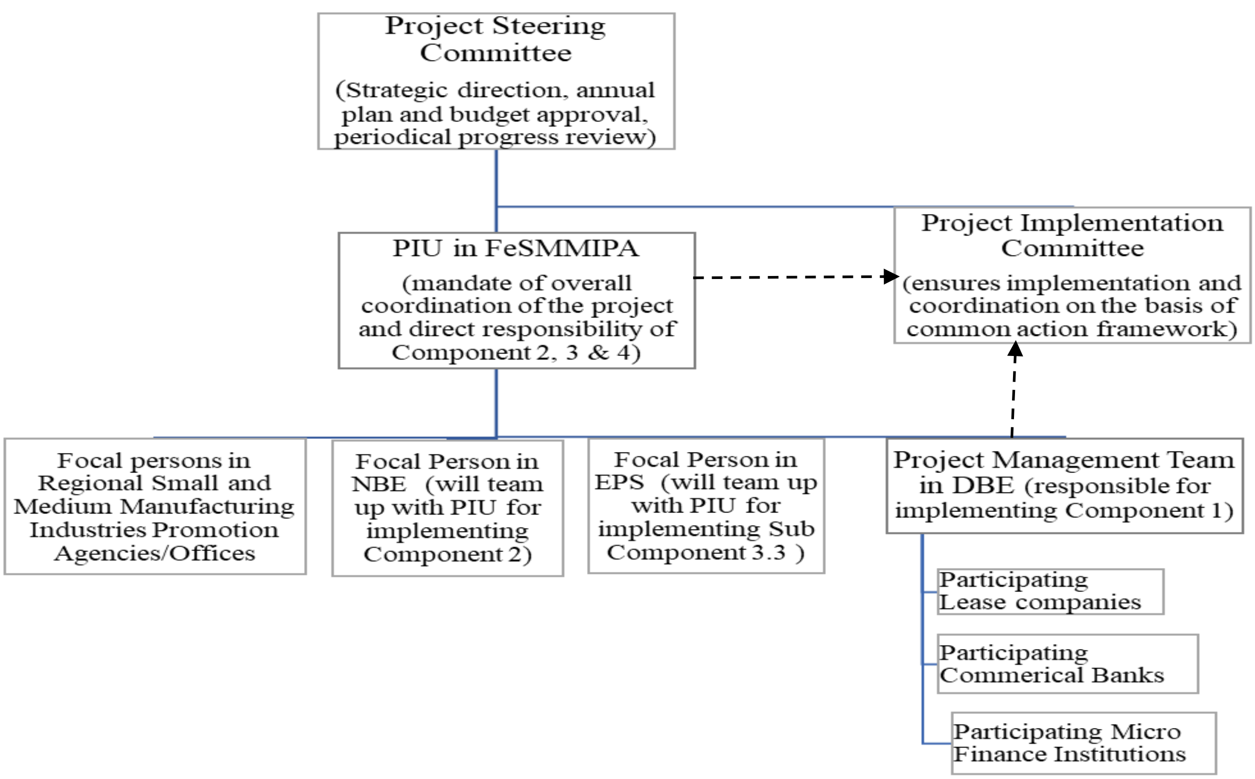
The unutilized fund from IDA and EIB of the parent project will be disbursed during the project implementation of additional financing. Also, technical assistance of IFC will continue for the implementation of Component 2.

II. IMPLEMENTATION ARRANGEMENT

The Ministry of Finance (MoF) represents the Government of Ethiopia (GoE) and will be the signatory of the IDA Credit and Ministry of Industry (MOI) is mandated by MoF to be the responsible Ministry to host the SMEFP-AF and have the coordinating role with the implementing agencies. MoF delegated the project implementation to the Development Bank of Ethiopia (DBE) and Federal Small and Medium Industries Promotion Agency (FeSMMIPA). The IDA Credit proceeds will be transferred directly to DBE in line with the provisions of the Subsidiary Agreement, and to FeSMMIPA.

A Project Management Team (PMT) in DBE will have the direct responsibility of managing the credit facility under component 1. A Project Implementation Unit (PIU) in the FeSMMIPA will have 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. Also, Ethiopian Postal Service (EPS) will assign a focal person to implement Sub Component 3.3 jointly with PIU. At the regional level, Small and Medium Manufacturing Industries Agencies/Offices will serve for marketing the project and coordinating SMEFP-AF's services to clients.

Figure 2.1: Implementation and Organizational Structure of SMEFP-AP



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-AF 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. Chief Executive Officer of Ethiopian Postal Service
5. Executive Director of Association of Ethiopian Microfinance Institutions (AEMFIs), member
6. 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-AF work plan, budget, and procurement plan; and ensure that SMEFP-AF 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-AF 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 Promotion Authority 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 procurement/selection committee.

2.2.1 Federal Small and Medium Manufacturing Industries Promotion Authority

The Federal Small and Medium Manufacturing Industries Promotion Authority (FeSMMIPA) is the implementer of project component 2, 3 and 4. The PIU will be housed in FeSMMIPA. At the regional level, Small and Medium Manufacturing Industries Promotion Bureaus/Offices will be responsible for marketing the project and facilitating SMEFP-AF services to clients referring the SMEs to services under both Component 1 and Component 3 of the project. Regional Small and Medium Manufacturing Industries Promotion Bureaus will assign focal staff to the project.

(a) PIU Roles and Responsibilities

The PIU will be responsible for:

- Overall coordination of the SMEFP-AF in accordance with the provisions and procedures articulated in the PIM as well as the SMEFP-AF agreements;
- Ensure effective and efficient use of financial resources allocated by IDA;
- Implementation of Component 2: "Enabling environment for SME finance". The PIU's responsibility is providing administrative support for strengthening collateral registry and modernization of NBE credit information system. 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 procuring works, recruiting consultant and coordinating the works of contractors and consultants, and provision of BDS to SMEs. Ethiopian Postal Service will assign a focal person that will act as the key technical referent of the PIU for Component 3.3: SMEs access to market through digital solution.
- 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.
- 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, MoF, 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, MoF, 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 as well as contracts and operating costs under component 4;
- Procurement of works, goods and services under Components 2, 3 and 4 in accordance with World Bank procurement regulations. 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-AF 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-AF's efficient implementation;
- Preparation and presentation of monthly updates to Project Implementation Committee; quarterly and annual consolidated reports on the SMEFP-AF funds use and the SMEFP-AF implementation progress to the MoF, PSC and World Bank specifying the outcomes achieved; challenges and proposed actions. The SMEFP-AF progress reports should also provide updated information on the outcome indicators, expenses and procurement within the framework of the SMEFP-AF;
- Close interaction with the PSC, authorities and officials of the agencies and institutions participating in the implementation of the SMEFP-AF;
- Assist the World Bank review missions and provide mid-term analysis of the SMEFP-AF;
- Initiation of other actions needed for efficient and timely implementation of the SMEFP-AF.

(b) PIU Staffing

The PIU in FeSMMIPA will have the following key 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

6) BDS Specialist
7) Communication and Outreach Specialist
8) Environmental and Social Safeguards Specialist

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

(c) The Regional Small and Medium Manufacturing Industries Promotion Bureaus

The Regional Small and Medium Manufacturing Industries Promotion Bureaus will market SMEFP-AF and facilitate the project services that will be provided to SMEs under component 1 and component 3. The Regional SME Promotion Bureaus will assign a focal person for the SMEFP-AF 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 Promotion Bureaus 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-AF services under component 1 and component 3;
- Act as a knowledge and information center, supply information about available support including the SMEFP-AF 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 and with BDS Specialist, 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 maintaining project specific database/folder for SMEFP-AF 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 Promotion Authority (FeSMMIPA) on the project performance;
- Collecting a feedback from clients; analyzing and communicating results/findings accordingly.

The Regional Small and Medium Manufacturing Industries Promotion Authority shall prepare annual work plan integrating SMEFP-AF 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 represents the Government of Ethiopia as sole shareholder in DBE. MoF 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 of 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 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 successfully managed IDA funds to provide for onward lending through MFIs to micro- and small-sized women-owned enterprises in the first phase of WEDP and launched the second phase of the project. 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. Also, DBE will implement Derisking Facility subcomponent that will reduce the requirement of collateral and lower the credit risk by absorbing a portion of the lender's losses on eligible loans made to SMEs in case of default. A Project Management Team (PMT), which is housed in DBE, will maintain direct responsibility for managing the credit facility and derisking 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 supplemented the WEDP PMT with additional capacity to manage the project. Specifically, a Safeguards Specialist and a Leasing Specialist have been added to the team.

2.3 Project Implementation Committee (PIC)

As the project involves close partnerships between a number of stakeholders, including the DBE, FeSMMIPA, NBE, WB and other development partners supporting the required technical assistance, Project Implementation Committee will be provide implementation guidance to PIU and PMT so as to avoid a risk that lack of effective coordination could constrain implementation and reduce the likelihood of achieving the desired objectives.

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 FeSMMIPA and project management team of DBE;
- 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 (PPR) and audit report is submitted to the World Bank.

Composition of Project Implementation Committee

The PIC is composed of PIU (FeSMMIPA), PMT(DBE), the World Bank (secretariat of the Committee), focal person from National Bank of Ethiopia and focal person from Ethiopian Postal Service.

Meeting Schedule of PIC

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

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 Promotion Authority (member), PMT Coordinator/DBE (member) and PIU Coordinator/FeSMMIPA (Secretary).

Meeting Schedule of Technical Committee

The Technical Committee will conduct its meetings on quarterly basis.

Reporting

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

2.5 Tender Committee

The Tender Committee is responsible for tendering process and bid evaluation of works, goods and non-good services of the project, and shall carry out short listing and evaluation of consultants' selection as per the procurement regulations of the World Bank and project procurement manual.

Composition of the Tender Committee

1. Director of Procurement and Finance Directorate (FeSMMIPA), Chairperson
2. Director of Entrepreneurship Directorate (FeSMMPA), Member
3. Monitoring and Evaluation Specialist (PIU), Member
4. Non-Financial Service Coordinator (PIU), Member
5. Procurement Specialist (PIU), Member and Secretary

Tender Committee members on ad hoc basis:

1. Focal Person/representative of EPS, for procurement of goods, service, consultants of Sub-Component 3.3: broaden access to market through digital solution
2. Focal Person/representative of NBE for procurement of goods, services and consultants of Component 2: Enabling Environment of SMEs Finance
3. PMT/representative of DBE for selection of consultant of Sub-Component 1c: Technical Assistance
4. Director of Human Resource Directorate (FeSMMIPA) for PIU staff recruitment

Roles and Responsibilities

The Tender Committee will undertake shortlisting of consultants and bid evaluation for works, goods and services, technical and financial proposal evaluation in accordance with the World Bank procurement regulations. The Tender Committee guidelines is attached as Annex 2.2

Reporting

The Tender Committee shall report to PIU Coordinator.

III. OPERATIONS MANUAL FOR SMEs FINANCE SERVICES

A) OPERATIONS MANUAL FOR SMEs 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- Additional Finance 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-AF, in line with the project design outlined in the Project Appraisal Document and subject to all applicable World Bank policies. The SMEFP-AF is financed with a USD 200mn credit from the International Development Association's and includes a USD 173mn line of credit targeting small and medium enterprises. The Line of Credit (LoC) is implemented in line with the 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.

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)[9]. Eligible SMEs from manufacturing, agro-processing, construction and tourism sectors may receive leasing finance from DBE and leasing companies, and/or working capital from participating commercial banks and micro finance institutions. WEDP clients graduating in the manufacturing sector will be beneficiaries of the leasing finance. Also, WEDP clients in all sectors graduating to SMEs, value chain enterprises providing raw materials and market access to manufacturing sector and enterprises in export will be benefited from the working capital window of the project.

.

[9] 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.

<u>Definition of "SMEs"</u>

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 Leasing	1) Manufacturing, agro-processing, tourism and construction materials manufacturing 2) WEDP clients in manufacturing sector graduating to SMEs
Sectors for Working Capital	1) Manufacturing, agro-processing, tourism and construction (construction materials manufacturing) 2) Value Chain Enterprises providing raw materials and market access to the sectors identified above 3) Export Businesses 4) WEDP clients in all sectors graduating to SMEs

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.
- "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. <u>Overview</u>

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 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.[10]

A TA facility 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.

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. 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

---

[10] 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.

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.

The leasing may take up to 50 percent of the financing under Component 1 and the rest 50 percent will be absorbed by the working capital. However, the line of credit implementation will be demand driven and the proportion of leasing and working capital will be flexible 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.

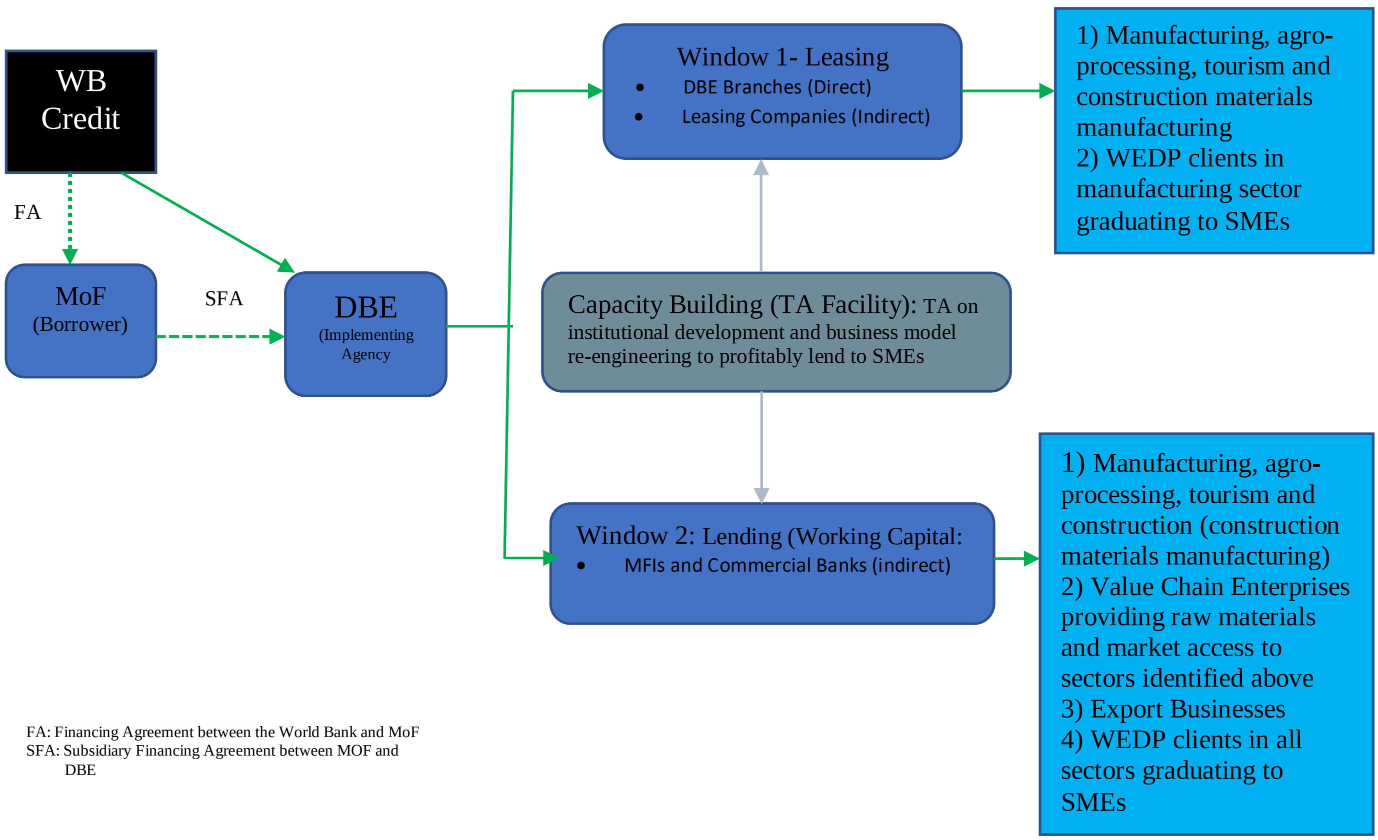
ii) **The appraisal of each PFI will be summarized in an appraisal report reflecting institutional practices for financial intermediary financing projects requiring an assurance that all PFIs in a World Bank financed Line of Credit (LOC) are viable financial institutions** determined by criteria described in Annex 3.1. DBE will submit to the WB 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 3.1 below provides an overview of the funds flow over Component 1:

Figure 3.1: Overview of the Flow of Funds[11] 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	PFIs 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.

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

i) **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

ii) **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 Activities[12] (see Annex 3.2), and, for higher risk sub-credits, relevant requirements of the World Bank Performance Standards 1 through 8.

iii) **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. <u>Subsidiary Financing Agreement (SFA) between MoF and DBE</u>

To facilitate the establishment of the credit facility, the MoF 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. 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;

[12] These 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.

- 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 recommendations as amended and supplemented from time to time[13]applicable to recipients of loan proceeds other than MoF; (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 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 shall otherwise agree.

v) DBE will be subject to implement and monitor progress using the agreed project's performance indicators.

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

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:

- 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'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, 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 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. **<u>Role of the Project Management Team –PMT</u>**

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 (MoF). 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; (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 reports[14]. 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.

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;

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

(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.
- 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-AF.
- 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 SMEFPAF.
- 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 IUFR format of World Bank
- Provide all required financial information regarding SMEF 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-AF to the Bank.
- Undertake monitoring, evaluation and follow-up activity of SMEFP-AF.
- 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-AF to DBE and the Bank.

(6) Lease Finance Specialist:

- Review, in association with loan appraisal and approval team, all wholesale applications submitted by PFIs and make recommendations.
- Supervise lessees as required to ensure that the funds are used for the intended purposes.
- Review financial reports submitted by the PFIs.
- 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.
- Prepare quarterly reports for both direct leasing by DBE and for the leasing carried out by leasing companies.

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

<u>Project Administration</u>

- Coordinate implementation of the credit line component of the project
- Participate in the PIC and TC
- Maintain relationships with the MoF, Ministry of Industry, Federal Small and Medium Manufacturing Industries Development Agency, the WB.
- 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.
- Prepare, in a format acceptable to the WB, 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 to effect the advance of funds.

- Make arrangements for external audits of the project accounts and records to be submitted to WB, 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 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. <u>Credit Facility Agreement's (CFA s) between DBE and other PFIs[15]</u>

(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;
- 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 MOF 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):

[15] 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 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 or by external auditors. The PFI will cooperate, as needed, with the WB and the MoF 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 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 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 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, 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 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, 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-AF

(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 funds for ineligible expenditures, it shall be asked to refund to the Special Accounts all IDA 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 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 -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 -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 -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 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-AF 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

Activities[16] (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.

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.

[16] These 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.

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 FeSMMIPA, MOF). 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-AF. These are presented below for reference only.

Table 3.6: Project Results Indicators (for WB's LoCs): Cumulative Target

	Name	Baseline	Intermediate Targets			End Target
			Yr. 1	Yr. 2	Yr. 3	
1.	Volume of Financial Support to SMEs under the credit facility and DRF (Amount(USD))	218m	300m	390m	480m	548m
2.	Number of SMEs Reached with Financial Services under the credit facility and DRF (Number)	1,452	2,000	2,800	3,700	4,200
3.	Portfolio Quality under the credit facility (Percentage of non-performing loans)	6	8	7	6	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:

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 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 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.

B) OPERATONS MANUAL OF SMEs DERISKING FACILITY

3.9. Background

The objective of the Derisking Facility (DRF) is to broaden the range of financial instruments to support viable SMEs. The DRF aims to create a market mechanism for mitigating credit risks associated with lending to existing, productive SMEs and through it contribute to business continuity and jobs during this pandemic. The facility will be structured as a partial guarantee scheme designed to provide credit enhancement to viable/growth-oriented SMEs. Insolvent (zombie) firms which failed to repay loans even before COVID-19 will be excluded from accessing the DRF. As a market-based facility, the DRF will apply to SMEs across sectors based on market need while actively avoiding industry segments where solvency itself is a concern. Relevant qualifying criteria described below will be applied to identify eligible beneficiaries under the DRF.

1. **The economic fallout of COVID-19 has accelerated the need for a risk sharing facility.** Even where there is willingness to support, business uncertainties caused by the large COVID shock has tended to constrain lender risk appetite necessitating risk-sharing arrangements to complement liquidity lines. Currently, lenders in Ethiopia use collateral rather generously[17] to offset high levels of information asymmetry due to the lack of reliable financial information on SMEs. Yet while collateral gives lenders security in case the borrower is unable to repay the loan from business cash flows, it locks up a substantial amount of value that could be leveraged for additional funding. This hinders access to sufficient finance that can help rapid growth and makes it difficult to graduate to medium enterprise level. SMEs can leverage additional finance if lenders are able to offset part of the risk while in parallel seeking to address information asymmetry more broadly including through requiring better quality information, disclosures and transparency from SMEs. For credit worthy borrowers, the DRF instrument would be designed to share credit risks with PFIs on a substantial portion of a loan (50%) in *pari passu* terms, to step up lending if future cash flows justify it.

Introduction to the Credit Risk Guarantee Fund

2. The DRF will be established under Component 1 (Financial Services to SMEs) of the SMEFP-AF. Up to US $6 million in capital will be provided. The fund will be administered by the Development Bank of Ethiopia (DBE).
3. The purpose of the DRF is to provide partial credit risk guarantees to increase the availability of capital for working capital requirements of qualifying SMEs. The following is a summary of the DRF:

---

17 323% as per Enterprise Survey, 2015. Collateral is typically in the nature of immovable assets.

a. Maximum guarantee amount will be 50% of the total loan.

b. Maximum loan size will be ETB 10,000,000 for commercial banks. For MFIs, the maximum loans size will be ETB 800,000.

c. Maximum tenor is 5 years.

d. There is no maximum interest rate, but the borrower should have projected free cash flow equal to at least 125% of the loan payment to qualify for a guarantee on the loan. Interest rates will be monitored to ensure that borrowers are charged a market rate of interest.

e. The borrower must pledge all available collateral up to 100% of the loan amount, using the liquidation (forced sale) value of the collateral. Lenders may approve a loan that is less than fully collateralized if there are offsetting factors to make up for the lack of collateral. Offsetting factors include a high projected debt service coverage ratio resulting from a high projected cash flow, a very experienced management team that has been owing or managing a similar business for at least 5 years, and a well-researched business plan that demonstrates expertise on the part of the applicant. A fill in the blank business plan prepared by a third party would not qualify. All collateral must be registered on the electronic collateral registry.

f. The guarantee will cover a portion of the principal balance outstanding at the time of default. It will not cover interest, default interest or any fees or charges levied by the lender.

g. The guarantee fee will be 2% of the guaranteed portion of the loan per annum, collected at the time of first disbursement and in the anniversary month of the loan thereafter. The first fee will be based on the maximum guaranteed amount approved by the DRF and subsequent fees will be based on the guaranteed balance in the anniversary month.

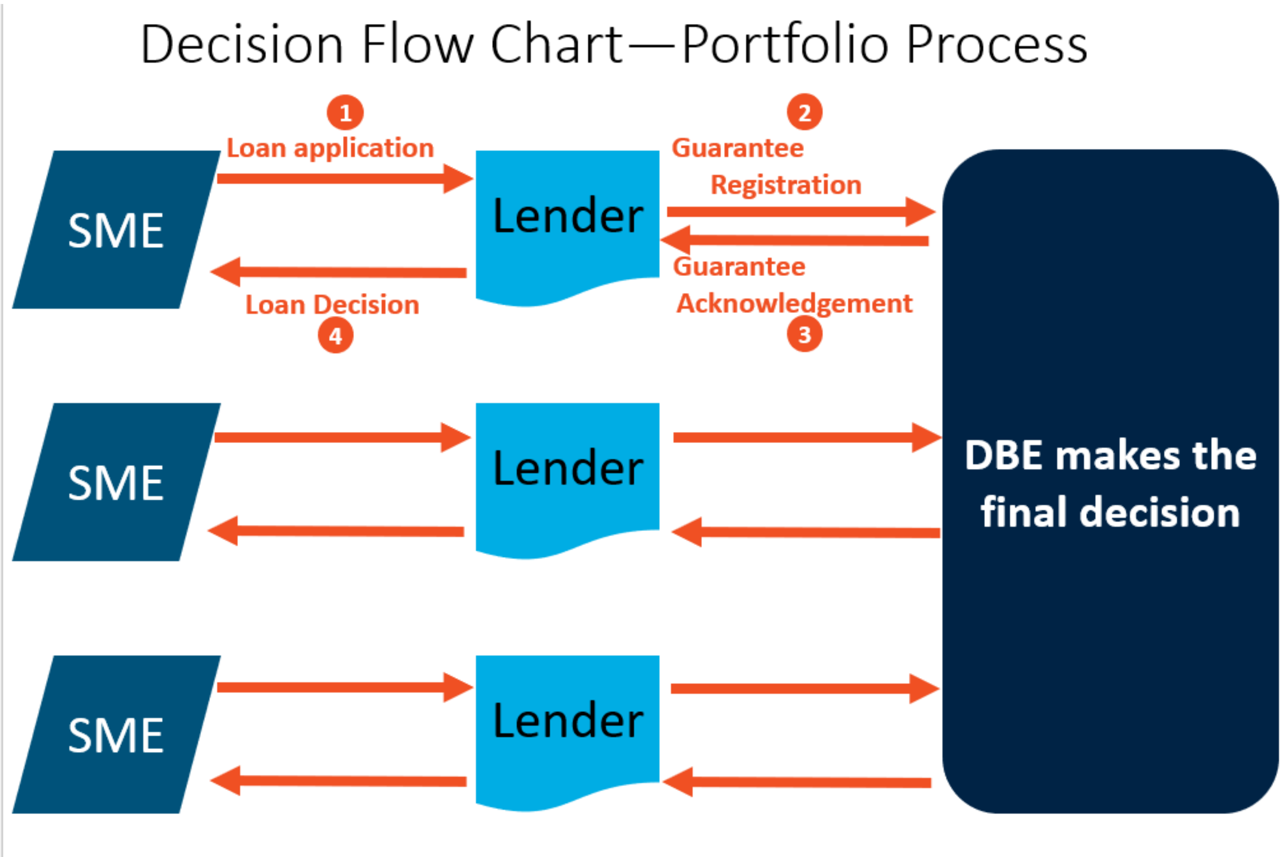
h. The DRF will begin as a loan-by-loan guarantee fund managed by the Development Bank of Ethiopia (DBE) that will operate very similarly to a hybrid scheme. As experience is gathered with various financial institutions, the scheme may evolve to a portfolio scheme as market conditions demand and it is clear that proper risk management and oversights systems are in place. DBE will not do a full credit review of the analysis provided by the lender, but will check various aspects of each application before approving a guarantee.

i. Most sectors are eligible with the exception of those sectors on the World Bank exclusion list. The ineligible sectors are listed in Annex 3.17.

j. The lender may submit a claim for the guarantee after the business has been in default for 90 calendar days. The lender will be required to continue to service the loan and foreclose on collateral until the loan is paid in full or the collateral if fully liquidated.

4. Under the scheme, DRF, as guarantor, provides a credit risk guarantee of up to 50 % of the principal balance outstanding at the time of default on the loan made by the PFI. The application/approval process is shown in Figure 3.2:

Figure 3.2



5. The fund shall only cover partial credit guarantees (up to 50% of the outstanding balance at the time of default and it will be offered on an individual loan basis. SMEs will work with participating lenders and submit their applications to the PFI. If the PFI is willing to approve the loan with a guarantee by the DRF, it will submit the application to the DRF for review and a final decision.

6. If the borrower defaults, the PFI should try to restructure the loan so that the borrower can continue making payments. The tenor may be extended to reduce the payment. The PFI can consider a 90-day payment deferment. If the loan cannot be restructured and is 90 or more days past due, the PFI may submit a claim for payment.

7. The DRF will be complemented by a TA facility. The TA would support the following:

   a. enhancing the system of information-based credit decision making and monitoring (including via leveraging credit / market infrastructure and use of alternate sources of data where feasible),

   b. facilitating the product design to reflect a diversity of SME sub-sectors,

   c. supporting strengthening of PFI processes to identify incipient signs of sub-loan vulnerability,

   d. supporting SMEs in enhancing firm capabilities, market access and financial discipline,

   e. supporting PFIs to monitor and identify emerging economic and policy developments that affect repayment of loans and strengthen mitigation capabilities, and

   f. supporting the strengthening of DBEs institutional capacity to manage the DRF instrument will be woven in as a core feature of the project and will complement other World Bank and donor financed institution level capacity building interventions underway.

3.10. Policies and Administrative Guidelines

3.10.1 Governance structure

3.10.1.1 The Guarantee Fund Management Committee (GFMC)

8. The Guarantee Fund Management Committee will provide advisory support to DBE and review the performance of the Fund based on quarterly meetings after reviewing reports submitted by DBE on the performance of the Guarantee Fund.

9. The following organisations will be involved in the management of the DRF:

   - **DBE**: as administrator and guarantor to the guarantee facility (Chairperson)
   - ***FeSMMIPA***: Federal Small and Medium Manufacturing Industries Promotion Authority

- ***National Bank of Ethiopia (NBE)***
- ***Project Implementation Unit (PIU)***
- ***MoF***: as Ministry responsible for government budget and financial management of the Ethiopian economy

10. The individuals shall represent the interests of their respective organisations on decisions presented by the Secretariat for discussion. Members shall have no specific or designated roles and responsibilities over and above attendance of meetings and participating in committee decision making as set out in this paragraph.

11. Decisions shall be made by consensus and in the case of deadlock will go to a vote. A simple majority shall be considered sufficient to pass a motion.

Quorum

12. A quorum shall be 5 members. In the event of a meeting being constituted with less than the quorum, the meeting shall have informational status only.

Chairmanship

13. . The Chairpersons shall not benefit from a casting vote.

Secretariat

14. The Secretariat's functions are administrative and it takes responsibility for arranging, preparing for and reporting on GFMC meetings. The tasks include:

    - GFMC meeting logistics
    - Meeting agenda and supporting documentation collection and preparation
    - Drafting of minutes and resolutions
    - Preparation of summary reports

15. It is proposed that the Secretariat be housed within DBE, but that the Ethiopian government provide and employ the resource to fulfil the functions:

    - This will ensure independence of the Secretariat and avoid any conflicts of interest between DBE and the Secretariat (DBE has a reporting responsibility and is beholden to the GFMC on reserved matters), and
    - This will also not impose additional costs on DBE which have not been budgeted

16. The Secretariat shall have the right to call extraordinary meetings, at its discretion, of the members of the Committee for urgent matters such as (but not limited to) FI exclusion matters, with a 7-day notice period.

3.10.2 Authority of the Guarantee Fund Management Committee ('GFMC' or 'the Committee')

17. The Committee will be responsible for the following reserved matters:

- Approval of lenders (commercial banks and MFIs) that will be eligible to receive guarantees from the facility: i.e., the Committee will approve the signature of Guarantee Agreements with the FIs that have successfully passed the Accreditation process
- Provide advisory support to DBE on policy and procedures
- Review and provide resolution to any special issues facing the Guarantee Facility
- Review of risk exposure of the Guarantee Facility

18. The Committee will also conduct periodic audits and review of the fund's guarantee liabilities and review selected credit risk assessments conducted by the lender and DBE.

19. In case of a call on a guarantee due to individual loan defaults, all claim payments shall be approved and honored at the full discretion of DBE[18] without any intervention of the Committee.

20. The Committee will report on and undertake the following additional responsibilities:

- Receipt and discussion of DBE reporting
- Exclusion of Accredited FIs due to FI event of Default reported by DBE or Accreditation for new entrants (including process)
- Propose changes to the split of funding between the Commercial bank and the MFIs

21. The Committee is an independent body and decisions made by the Committee are independent of, and final and binding against, all parties and the decisions are not subject to review by DBE.[19]

3.10.3 The Guarantee Administrator (DBE)

22. DBE shall be responsible for the day-to-day operation of the DRF and administration of the guarantee fund maintained at NBE.

23. DBE shall report to the Guarantee Fund Management Committee on a quarterly basis.

---

18 DBE has sole discretion to decide on payment of successful and compliant guarantee claims in order to avoid a situation where DBE has a legal obligation by contract to an FI to pay a guarantee amount, but for whatever reason the GFMC decides that it does not wish to pay a claim. This could result in DBE suffering a loss in the absence of recourse to the Guarantee Fund.

19 The GFMC operates on delegated authority and makes independent decisions. This is established practice in Independent Investment Committees in financial structures where public money is being applied to the private sector.

24. The report will be an activity report on the issuance and usage of the DRF by Financial Intermediaries. The report shall include the following:

- Outstanding loan amounts and outstanding guaranteed loan amounts per Financial Intermediary
- A set of indicators as follows (By institution and consolidated for each heading):

  - ***Committed Loan***: loan amount that has already been approved by FIs and guaranteed by DBE but not yet disbursed to SMEs
  - ***Disbursed Loan***: value of loans disbursed (paid out) to SMEs from the committed loan amount
  - ***Outstanding principal amount***: value of active loans which are neither fully paid nor written off (i.e., total loan amount disbursed minus total amount of loans collected)
  - ***Defaulted (Losses)***: value of guaranteed loans in arrears for more than 90 days with firms' self-reported reasons for default
  - ***Recoveries***: amounts recovered after the outstanding guaranteed loan amount has been called-in
  - ***Payment Demands***: total value of claims presented to DBE
  - ***Excluded Loans:*** loans excluded from guarantee coverage due to FIs noncompliance to the guarantee agreement
  - ***Total number of Final Recipients supported***: total number of SMEs benefiting from the guarantee facility

25. The report shall also include a summary of Financial Intermediaries activity on their total book under the following calculated indicator ratios:

- ***Portfolio at Risk***: the total amount of guaranteed portfolio with payments overdue divided by the total outstanding guaranteed portfolio. (by institution and consolidated)
- ***Recovery rate***: the ratio of amounts recovered after outstanding loan amount has been called in divided by the outstanding loan amounts called in. (by institution and consolidated)
- ***Pay-out rate***: gross pay-outs over a year divided by the average outstanding guaranteed loan portfolio over that year. (by institution and consolidated)
- ***Net loss rate***: Pay out net of recoveries over portfolio outstanding on a 12-month rolling basis
- ***Risk-exposure***: Projections of pay-out and net loss rates for the Guarantee facility based on above mentioned indicators as well

as on projected guaranteed outstanding loan portfolio provided by bank and on the relevant risk percentage borne by the Guarantee facility.

3.10.4 Fund Transfers to the DBE

26. The DRF will use a reports-based rather than a transaction-based structure to advance funds from the World Bank to the DBE. By the first day of each month, DBE will send a spreadsheet with the names and amount of loan guarantees for each loan that it expects to close in the month. The World Bank will advance funds to DBE to cover the guaranteed amount of the loans expected to fund in the current month. Funds will be distributed to DBE in Birr. This report should also contain a list of loans and guaranteed amounts that did not close in the previous month and are being carried over into the current month. Finally, the report should have a list of any loans cancelled and those loans that closed in the previous month. This structure will remain in place until the end of the project. There will be no new guarantees after the end of the project unless additional financing is secured by DBE. For this structure to work properly, the DBE will require a report from lenders quarterly indicating the volume of loans being worked on that may possibly need a guarantee. This report will give the DBE an estimate of the pipeline of activity coming in the next few weeks. These data will be used to determine the amount of funding that the DBE will request from the World Bank.

27. To develop the monthly report to the World Bank on funding requested, DBE must develop a process to monitor the pipeline of loans being worked on by the FIs. As there are only 15 banks and 9 MFI, this process can be handled by an email that includes the cases expected to be ready to close in the upcoming month. DBE staff can consolidate the information and use it to prepare the report for the World Bank.

3.11. The Guarantee Mechanism

3.11.1 The Guarantee

28. The Guarantee facility will cover up to 50% of the losses on the **principal amount** of each loan that has been issued with the Guarantee and which has not been excluded at the date that a Guarantee Claim is made.

29. The coverage will be in force until such time as the underlying Loan is fully settled with the Financial Intermediary. Any residual fund after full settlement of claims on guaranteed loans shall be the property of DBE.

3.11.2 Process of Accreditation

30. Lenders that have been vetted and accepted into the Line of Credit Program are automatically qualified to submit applications for guarantees on SME loans. Lenders

participating in the Line of Credit Program that wish to participate in the DRF must formally notify DBE of their interest and receive a formal response from DBE that it has been registered for the DRF. Once registered with DBE, the lender may execute the Intermediary agreement. See Annex 3.7 for the Agreement.

31. A process of Accreditation shall be managed by DBE[20] to identify those FIs that can qualify to apply for individual loan guarantees by signing a Guarantee Agreement. The process for Accreditation shall be as set-out in the Call for Expressions document presented as Annex 3.13 of this Operational Manual. FIs selected must have: a) a good track record of SME lending (as demonstrated by a growing SME portfolio; and at least 3 years of SME lending experience), (b) asset quality of the SME lending portfolio (for example, NPL ratio of less than 5 percent), (c) adequate risk control and management practices with a demonstrated commitment to responsible lending practices, (d) adequate profitability[21] and liquidity profile (to be validated through CRAR[22] and audited financial statements), (e) a committed action plan to support SMEs in the target segment; and (f) willingness to institutionalize enhanced data monitoring and sustainability practices in SMEs as a result of TA provided under the SMEFP-AF. The Eligibility Criteria set out in the call are listed.

3.11.3 Eligible Financial Intermediaries

32. Open Call for Expression of Interest is addressed and restricted to Financial Intermediaries that:

a) Are licensed by the National Bank of Ethiopia (NBE) and compliant with all prudential regulations
b) Have a sufficient, capable and qualified management team, institutional capacity and corporate governance structure
c) Have at least three years of operational experience in providing financial services for SMEs [23]
d) Has a growing SME portfolio
e) Has been profitable for the last two years and has a low risk profile

20 An internal Guarantee & Claim Approval Team will be established. The team will comprise the Director and 3 Team Managers working under the Directorate. The Director will be the chairperson of the Approval Team.

21 PFIs should be profitable at a post-tax level and dividend paying for at least the last 3 years.

22 Meets at least the minimum regulatory capital and liquidity ratio required by NBE.

23 The GFMC may, at its full discretion, waive this requirement. The concerned FI will however be required to prepare a business plan/action plan how it will obtain expertise in SME lending, to the satisfaction of DBE, prior to any guarantee to be provided.

f) Has a capital adequacy ratio (ratio of total capital to total risk-weighted assets) of at least 12% for MFIs and 8% for Commercial Banks as per prudential regulations

g) Has sufficient liquidity, by maintaining liquid assets at 20% for MFIs and 15% for Commercial banks of total deposits

h) Has a good lending portfolio quality (Portfolio at risk >90 days of less than 5% in the last 12 months

i) Has an acceptable write-off rate

j) Has sufficient provisions and risk management policies for managing credit risks, liquidity risks, interest rate risks, currency risks, market risks and operational risks

k) Has sufficient outreach in terms of branch network

l) For MFIs, has a client base of at least 10,000 borrowers (women and men) at the time of application, reached directly or through partner institutions

m) Has a demonstrated management commitment and capacity to manage financial support and to achieve the desired objective of the project

n) Has sufficient IT and Management Information Systems (MIS)

o) Has adequate financial information systems in place to provide accurate financial for statements in a timely manner

33. The selection criteria for all applications will include, but will not be limited to:

a) Soundness and sustainability of the institution, as demonstrated by good key performance indicators

b) Willingness and ability of the institution to properly process SME loan applications and service and liquidate SME loans.

c) Commitment to understand the impact of SME lending on clients over time and adjust operations accordingly, including a willingness to restructure defaulting loans.

d) Demonstration of commitment to knowledge management and sharing.

e) Demonstration of commitment to client protection and transparent pricing

f) Proven experience in SME lending[24]

[24] The GFMC may, at its full discretion, waive this requirement. The concerned FI will however be required to prepare a business plan/action plan on SME lending, to the satisfaction of DBE, prior to any guarantee to be provided.

3.11.4 Guarantee Agreement

34. On completion of a successful Accreditation process, the FI will be invited to sign a Guarantee Agreement with DBE substantially in the form of the sample Guarantee Agreement in Annex 3.7 of this Operational Manual. Any variation on the Standard Terms and Conditions will be subject to the satisfaction of DBE as Guarantor and must be recorded in writing in the Guarantee Agreement or if agreed after signature, as a variation to that Agreement.

3.11.5 Guarantee Issuance

35. Accredited FIs will submit Guarantee requests to DBE substantially in the form of the Annex 3.7 to the Guarantee Agreement to this Operational Manual.

36. The FI and the borrower first need to agree on the loan terms (maturity, interest, repayment schedule) and conditions (performance criteria) before the FI lodges Guarantee request with DBE. All loan conditions will be decided upon between the FI and the borrower.

37. DBE will assess credit applications on adequacy of debt service coverage ratio (DSCR), credibility of projections relative to industry trends, compliance with prudential and risk management criteria viz. maximum loan size, tenor, exposure limits and other risk-return dimensions. The target DSCR is 125% or higher. Any application with a DSCR less than this amount must have a specific reason why the application is acceptable with a DSCR of less than 125%. The application must also include the tenor and interest rate.

38. The Guarantee Request Letters must be accompanied by at least the following information:
    - FI Name
    - FI Address
    - FI Contact Person
    - Contact Number
    - Email Address
    - Borrower Name, Address, Contact number, email
    - A copy of the Borrower’s loan application
    - Loan number, principal, interest, tenor, instalment profile, first drawdown, and special conditions
    - Amount of Working Capital being requested
    - Statements & evidences that show the loan has been approved by the appropriate body in accordance with the FI’s loan approval sanction limit.
    - A summary of the information in the credit bureau report

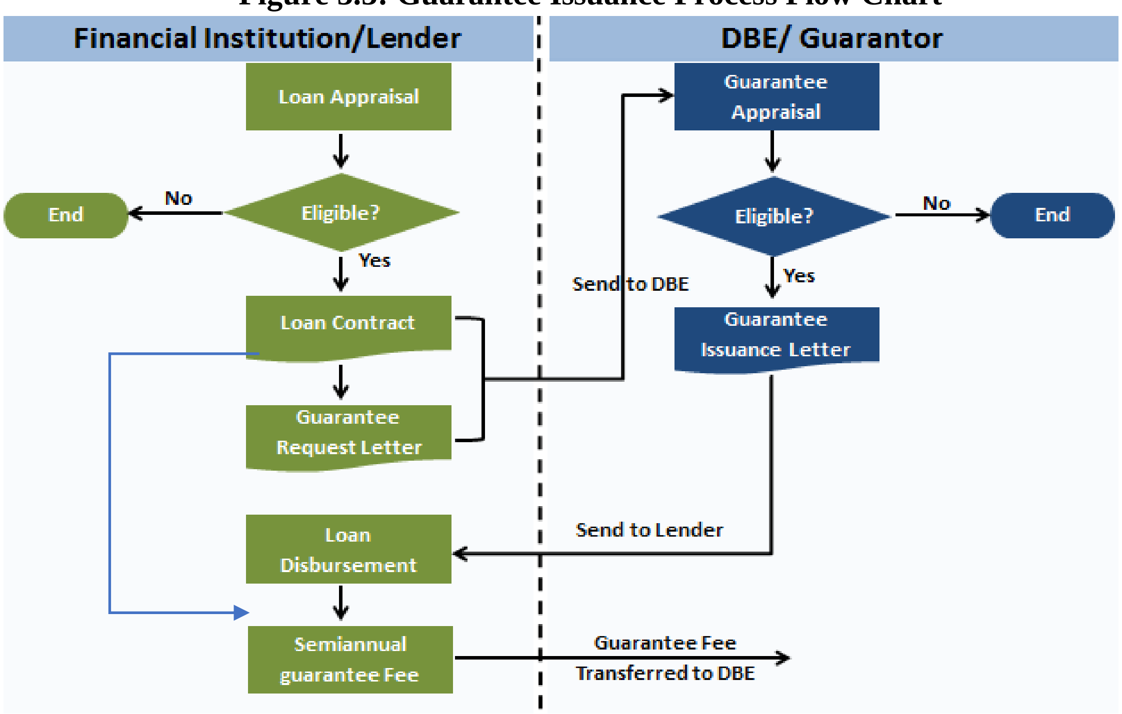
39. DBE shall have the right to reject or accept the request. In the case the request is accepted, DBE will issue the Guarantee for that loan substantially in the form of the Guarantee Issuance Letter included as Annex 3.9 to the Guarantee Agreement to this Operational Manual.

40. The Guarantee Issuance Letter will fundamentally include at least the following information:
    - FI Name
    - Borrower Name
    - Loan amount
    - Maturity
    - Repayment
    - Guarantee Coverage
    - The period of validity of the Guarantee

41. Eligible Borrower requirements include the following:
    a. Business is based in Ethiopia and has between 6 to 100 full time equivalent employees.
    b. Business activity is not on the World Bank Exclusion list.
    c. The owner(s) of the business is not under arrest, on parole or in prison.
    d. The maximum loan amount needed is Birr 10,000,000 or less.
    e. The business may be for profit or not for profit.

42. The Guarantee issuance process depicted in Figure 3.3 below:

Figure 3.3: Guarantee Issuance Process Flow Chart



3.11.6 Total aggregate Guarantees limits to an Individual FI

A single commercial Bank shall be limited to a total amount of guarantees equivalent to 50% of the total guarantee fund amount at any one time. A single MFI shall be limited to a total amount of guarantees equivalent to 20% of the total guarantee fund amount at any one time.

3.11.7 Guarantee Fee

43. The guarantee fee will be 2% of the guaranteed portion of the loan per annum, collected at the time of first disbursement and in the anniversary month of the loan thereafter. The first fee will be based on the maximum guaranteed amount approved by the DRF and subsequent fees will be based on the guaranteed balance in the anniversary month. The lender shall forward the fee with the monthly report for each loan. An invoice will **NOT** be sent. Failure to pay the fee, when due, may result in the termination of participating status. The guarantee fee collected by DBE shall be treated as income to DBE from an accounting perspective.[25]

3.11.8 Responsibilities of Participating Parties

44. The Guarantor

- i) DBE may communicate with potentially eligible FIs regarding the availability of the DRF through different media as it may deem necessary
- ii) DBE may issue a call for EoI to select financial intermediaries for the guarantee fund.
- iii) DBE shall appraise applications for credit guarantee by using prudential mechanisms before entering into Guarantee Agreement with FIs
- iv) DBE shall issue guarantee letters to eligible FIs who fulfil the criteria specified in this document
- v) DBE shall closely follow-up and monitor guaranteed loans and take the necessary actions if deemed necessary
- vi) DBE shall honor and pay claims that fulfil the conditions specified in the guarantee agreement. Claim settlement shall also be conducted in the manner and time-frame set out in the guarantee agreement
- vii) DBE shall closely follow-up and monitor recovery of the NPLs
- viii) DBE shall provide the Guarantee management committee with all the reports set forth in the “policies and administrative guideline” section

[25] The 2% fee shall be treated as income to DBE and utilized to cover the administration cost of the scheme by DBE and is in line with remuneration for administrators in other such schemes in the country

ix) DBE shall monitor activity by sector, size, region and other characteristics and has the right to refuse guarantees in areas where concentration is becoming an issue.

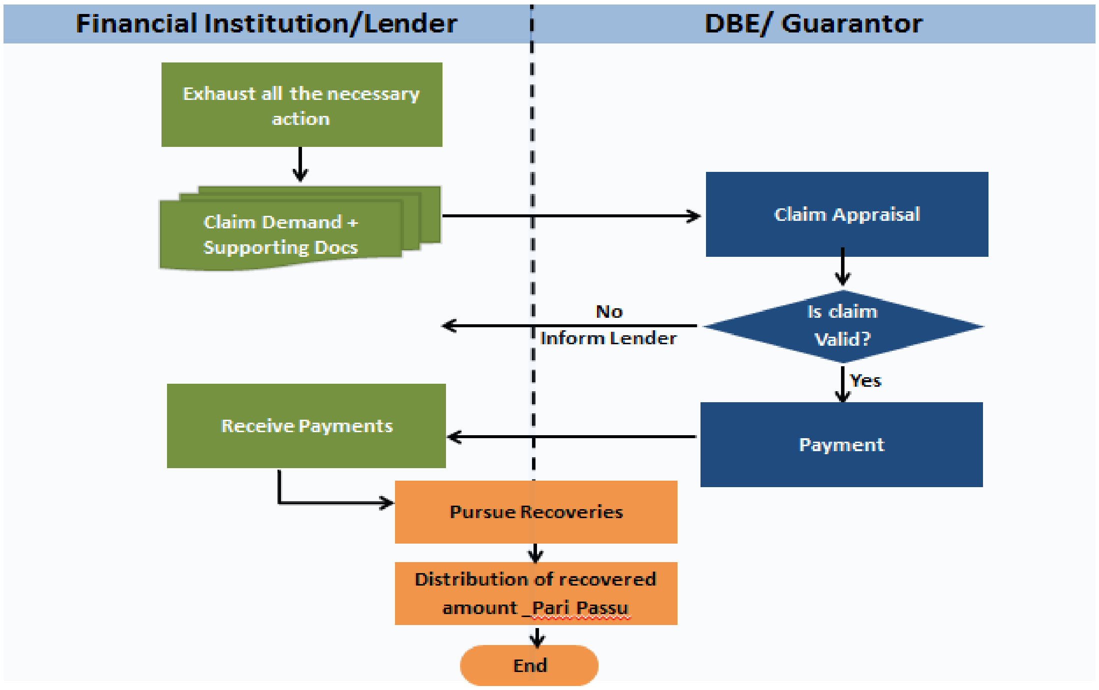
45. Financial Intermediaries

i) The FI shall evaluate credit applications by using prudent credit appraisal mechanism and shall use its normal due diligence in selecting viable SME enterprises (borrowers)
ii) The FI shall closely follow-up and monitor the loan in accordance with its normal credit operation practices
iii) The FI shall pay a guarantee fee in the manner and time frame specified in the guarantee agreement
iv) The FI shall be and remain in compliance with the prudential and regulatory norms set forth & enforced by the NBE as certified by their quarterly report to the NBE
v) The FI shall ensure that the guarantee claim is lodged with DBE in the form and in the manner and within such time as specified in the Guarantee Agreement
vi) The FI shall abide by all the terms and conditions set forth in the Guarantee Agreement
vii) The payment of guarantee claim by DBE to the FI does not in any way take away the responsibility of the FI to recover the entire outstanding amount of the credit from the borrower
viii) The FI shall ensure that the guaranteed loans are entirely utilized by the borrowers for the intended purposes
ix) The FI shall exercise all the necessary precautions and maintain its recourse to the borrower for entire amount of credit owed by it and initiate such necessary actions for recovery of the outstanding amount
x) The lending institution shall comply with such directions as may be issued by DBE, from time to time, for facilitating loan follow up, loss recoveries and reporting of the guaranteed loans
xi) The FI shall exercise the same diligence in following-up and recovering the NPLs, and safeguarding the interest of DBE in all the ways open to it as it might have exercised in the normal course if no guarantee had been provided by DBE.
xii) The FI shall refrain from any act of omission or commission, either prior to or subsequent to call on a guarantee, which may adversely affect the interest of DBE as the guarantor.
xiii) The FI shall provide the guarantor with all reports set forth in the Guarantee Agreement.

3.11.9 Claim payment demands

46. Upon a Guaranteed Loan being defined non-performing (i.e., at least 90 days since the first missed instalment), the FI shall have the right to submit a claim for payment substantially in the form included as Annex 3.10 to the Guarantee Agreement. Figure 3.4 below illustrates the Guarantee Claim process.

Figure 3.4: Guarantee Claim Process Flow Chart



47. The claim will need to be accompanied by proof that the loan is in arrears and can be defined as Non-Performing, evidence of the FI's efforts (including reminder letter, warning letter, meeting minutes with the defaulter and litigation paper) to recover the amounts outstanding, and any other relevant documentation for DBE to be able to assess the claim. The approximate Claim payment timeline will be as set out in Table 3.13 below. The detailed requirements are set out in the Annex 3.7 to the Guarantee Agreement.

Table 3.13: Claim Processing Timeline

Actions	Cumulative time elapsed from date of first missed installment
First missed installment (principal or interest or both)	0
FI informs DBE of missed installment. FI commences efforts to collect installment	15
A warning letter is served by FI to Borrower if no repayment is made or effort to collect is unsuccessful	30
FI informs DBE of progress of recovery or restructuring process	60
Loan classified as Non-Performing Loan (NPL) by FI and FI informs DBE that Loan called in after it is satisfied that no payment will be made.	90
FI issues guarantee claim payment demand to DBE request with accompanying documents and reasons for Loan default	95
DBE acknowledges receipt and requests additional information if any	100
DBE confirms documents are complete	107
Claim approved (rejected) by DBE. If accepted, DBE sends payment authorization to NBE	114
Payment to FI made by NBE in respect of Defaulted Loan	120

3.11.10 Conditions for Settlement of Claims

48. Settlement of claim payments shall be subject to the fulfilment of the following conditions:

i) The borrower was eligible for the guaranteed loan and the loan was not disbursed prior to the issuance of the guarantee letter by Guarantor

ii) The loan remained in arrears for more than 90 days and has become a Non-Performing Loan as defined

iii) The FI has contacted the defaulter and executed all the necessary actions to recover the loan as per the internal loan recovery procedure. The FI shall execute the following actions before submitting claims:

- Send a reminder letter to the borrower when the first instalment or part thereof, including interest is delayed

- Send a warning letter within 10 (ten) days from the first reminder letter if repayment is not made after the reminder

- Call in the entire outstanding loan amount from the borrower within the next 15 (Fifteen) days from the day the warning letter was served. At this point, a joint meeting of the FI, DBE and the borrower shall be carried out for possible recoverability of the loan.

- If the loan is considered recoverable after discussion with the borrower, the FI shall send a letter to DBE proposing rescheduling of the loan with a full explanation.

- If the proposal for rescheduling is accepted by DBE, the FI shall reschedule the loan for the agreed period of time. Regardless of the loan amount, DBE shall accept or reject the request without prior approval of the GFMC.

iv) Legal actions have been initiated to foreclose on any collateral
v) Guarantee fees have been paid as they fall due
vi) The loan had not been restructured or rescheduled without prior approval of Guarantor
vii) The FI informed Guarantor in writing within the agreed time frame that the borrower has not made the payment
viii) The claim was presented to Guarantor within the agreed time frame
ix) There has been no material breach of the conditions contained in the agreement by the FI and referred to in Article 9
x) All documentation stated in Article 10 of the agreement has been furnished

3.11.11 Intermediary reporting

49. DBE shall receive from each Financial Intermediary by the 10^{th} or next business day of each month a report with the following minimum information for all loans receiving a new guarantee in the previous month:
    a) Individual loan guarantee recipient report
        - Ultimate Borrower details
        - Name Address
        - Region
        - Establishment date
        - Number of staff
        - Annual Turnover
        - Amount of Working Capital Approved
        - Comments

b) Transaction Report
  - SME / borrower name
  - Transaction ID
  - Loan Type
  - Purpose
  - Principal amount
  - Interest rate
  - Maturity (months)
  - Grace period (if any)
  - Signature date
  - First drawdown date
  - First instalment date
  - Amortisation profile
  - Payment frequency
  - Collateralisation rate
  - Amount Paid
  - Loan Status
  - 2% guarantee fee received
  - Comments

c) DBE shall receive from each Financial Intermediary by the 10th or next business day of each month a report regarding payments received on existing guarantee loans in the previous month. See Annex 3.14 for sample report.

50. Each FI shall also provide DBE with a copy of operational & financial reports prepared in accordance with the requirement of the National Bank of Ethiopia on a quarterly basis.

3.11.12 Framework for additional funders for the Guarantee Fund Mechanism

51. It is the stated intention of the Ethiopian government to extend the programme by inviting other third-party funders to participate in the programme on a similar grant basis to that of the SMEFP-AF funding. It is generally considered to be in the best interest of all parties that any new funder would be better served by utilising the same legal framework and administrative processes and procedures and the same administrator / guarantor (DBE). This would reduce time to market for new guarantee funds, and reduce the set up and administrative burden on such a funder.

52. It is therefore, proposed that the GFMC act as the co-ordinating point for any such government interactions and that the current Operational Manual and its concomitant processes and procedures act as a starting point for any third-party negotiations.

53. It is, however, understood that any third-party funding arrangement will not be offered on exactly the same terms and conditions as the one in this project, given the different accounting treatment, reporting and return requirements, and different legal and jurisdictional treatment.

3.11.13 Exit Strategy

54. A full operational review of the DRF will be conducted at the end of the SMEFP AF. It is expected that institutionalization of the DRF beyond the project period would serve to deepen the domestic credit market in Ethiopia. The specificities of the institutional structure of the DRF beyond the SMEFP-AF period would be ascertained depending on its performance and economic additionalities. The amount that has already been drawn down by the facility, and against which guarantees have been issued and are outstanding would remain in the guarantee reserve account until such time as the outstanding guarantees expire. For any amount remaining in the guarantee reserve account after the guarantees expire, funds would revert to DBE to support SME lending in a manner that is deemed fit by its management at the time – this could be through further upscaling the DRF if the Authorities decide in its favour. It may be noted that continuation of the DRF would be an acceptable route only if the DRF has performed well during the initial years of implementation and demand for its guarantees are still needed. This would be jointly determined by GoE, DBE, WBG and other donors involved.

3.11.14 Transition to a Portfolio Scheme

56. As the scheme develops, lenders will become proficient in using the guarantee and each credit application will not need the same level of oversight as DBE will be providing in the early stages of the scheme. At that point, it is possible to leverage the knowledge at the lenders by delegating the approval authority to certain active lenders. This is typically known as a hybrid scheme where lenders have authority to approve loans, but liquidation is still supervised by the scheme. The next step is to establish a portfolio guarantee, where the lender approves, services and liquidates each loan in an identified portfolio without loan-by-loan oversight by the scheme. Lenders would select loans based on eligibility criteria supplied by DBE. Several steps are necessary to implement such a scheme.
    a. Establishment of a sophisticated MIS capable of tracking all of the activity of each participating lender.
    b. Operating the system for a few years to determine which banks will be most successful at using the guarantee program.
    c. Establish a hybrid program to allow selected banks the ability to make the credit decision without the involvement of DBE.

d. Establish a robust lender oversight system which has the capability of tracking guaranteed loan activity closely and with staff that have the ability to conduct onsite reviews of loan files to determine if lenders are properly utilizing the scheme and that every loan that was included in the guaranteed portfolio was eligible.
e. Establish a portfolio scheme by developing specific criteria for lenders to use when selecting loans for a guarantee. A portfolio scheme is based on the idea that every loan that meets the criteria must be included in the guaranteed portfolio.

3.12. Risk Management/Lender Oversight

3.12.1 Risk Management Strategy

57. The DRF shall use a risk management strategy that includes teaching DRF staff and staff members at participating lenders to recognize the characteristics that are found in small businesses where it is appropriate to use a guarantee. These MSMEs have a problem in their application package that can be mitigated by providing a guarantee on a portion of the loan. The following is a list of examples where the guarantee would be appropriate, assuming the borrower has adequate projected cash flow to repay the loan:

i. A fast-growing business with a good market and a good business plan needs additional working capital to finance the growth of the business. For example, cash would be used to purchase raw materials or pay existing bills.
ii. A service business that does not have a significant amount of collateral can use the guarantee to obtain working capital financing to purchase equipment necessary for its business.

3.12.2 Risk Universe Identification

58. The Risk Universe for the DRF is wide and varied. These risks range from hiring satisfactory personnel to the level of economic activity in Ethiopia to the security of the DRFs information system and the honesty of participating lenders. The primary risk is that the staff will guarantee loans that are unlikely to be repaid and the lender will call on the DRF to pay its guarantee.

3.12.3 Primary Risk Mitigation

59. DRF will manage the primary risk by ensuring that the staff is properly trained and by working with lenders to teach them how to identify successful potential users of the guarantee. The second means for loan risk identification is using a cash flow analysis to determine if the applicant’s cash flow after the loan is disbursed is adequate to pay the loan payments. The target debt service coverage ratio will be 1.25 to 1 after projected revenues and expenses for the next few years are analysed. This policy is not absolute and the DRF may approve loans with a lower debt service coverage ratio when mitigating factors exist that offset the lower cash flow availability. These mitigating factors must be listed in the loan officer’s report

(prepared either by the Intermediary or the DRF staff) along with an explanation of how the factor will offset a lower debt service coverage ratio. A typical mitigating factor is the certainty with which the revenue predictions can be made.

3.12.4 Secondary Risk Mitigation

60. Other aspects of the risk universe that affect the lending program include staff training, lender training, lender honesty, borrower honesty, information system integrity, purchase process integrity, investment portfolio management and environmental and social risks. Each of these will be addressed below.

3.12.5 Lender Fraud.

61. Lender fraud is a risk in that if lenders provide false information the DRF staff will make bad decisions. The risk exposure of at least 50% on the part of lenders is a significant step in mitigating this risk. The loan purchase review process is the second major step in mitigating this risk.

3.12.6 Borrower Fraud.

62. Applicants must provide accurate information so that the bank and the DRF can make an informed credit decision. DRF depends on the lenders to know their borrowers. Lenders frequently have experience with the applicant prior to submitting a guarantee application. In this case, the lender exposure contributes to the mitigation of the risk that borrowers will provide incorrect information. The unguaranteed portion of the loan is an incentive for the lender to investigate information provided by the borrower and the DRF can use that lender risk to help mitigate its own risk. A secondary mitigation of this risk is the experience of the DRF staff. If they see information that looks like it is not correct, they can call the lender and ask for verification.

3.12.7 Information System Integrity.

63. It is imperative that the Corporation's information system be secure and in excellent working order with all recent security and other system improvements installed and operating. This risk is mitigated by using a well-regarded service provider to run the underlying IT systems.

3.12.8 Purchase Process Integrity.

64. It is critical that only those loans that are eligible for purchase are actually purchased. DRF can mitigate this risk by requiring a robust approval process involving multiple individuals that will approve all purchases. A sample of the purchases should also be reviewed by the outside auditor as part of the annual audit process.

3.12.9 Portfolio Management.

65. It is necessary for DRF to have regular (monthly) loan portfolio management reports that will provide a good summary of the status of the portfolio, identify trends (negative or positive) and provide enough information for management to decide if action is necessary. The report should be for the total portfolio and sorted

by lender, sector, size, and any other way requested by management. A lender report substantially similar to Annex 3.15 should be prepared for each lender. The same format can be used for the whole portfolio as well as sectors, within size ranges or by region.

3.12.10 Lender Performance Report Including Monitoring of NPLs

66. A lender performance report similar to the sample provided in Annex 3.15 should be developed for each Intermediary to determine which lenders should be maintained in the scheme and which should either receive additional training or be terminated. This report is cumulative to show annual performance by each Intermediary. In addition, DRF will track monthly NPLs for the guaranteed portfolio of each lender and reserves the right to suspend participation based on trends in the NPL rate. While a specific NPL rate for suspension is not noted, an upward trend will lead to questions from the DRF regarding the cause of the portfolio degradation.

3.12.11 Lender Oversight

67. A combination of onsite and off-site inspection of files of the guaranteed loans on a sample basis would be employed to ensure due diligence processes are being applied by PFIs. The onsite reviews would provide the opportunity to understand the internal processes used by lenders and would provide useful insights on strengthening lender systems that may be necessary for a migration to portfolio approaches at a later stage. An onsite review would include a review of the file to ensure that all required information is in the file and that the file is being kept up to date. The onsite review may also include a review of procedures and policies of the lender.

IV. OPERATIONS MANUAL FOR SMEs BUSINESS DEVELOPMENT SERVICES

4.1 Introduction

This component is aimed at enhancing the capacity of SMEs through the provision of training and through the provision of market access service. It contains three sub-components; building firm capability, increasing market access and digital solutions to increase market access. This component will be delivered through international or local partnerships between international and local service providers. The beneficiary SMEs and their backward-linked suppliers will be selected through open invitation/calls for participation in the firm capability-building program. Beneficiaries of SMEs in component 1 and 2 will also be included in the support under component 3. The component brings international best practices24 considering lessons learned from the experience to date for improving SMEs' access to local and international markets—including supplying to industrial parks.

This chapter details the operational manual for the component

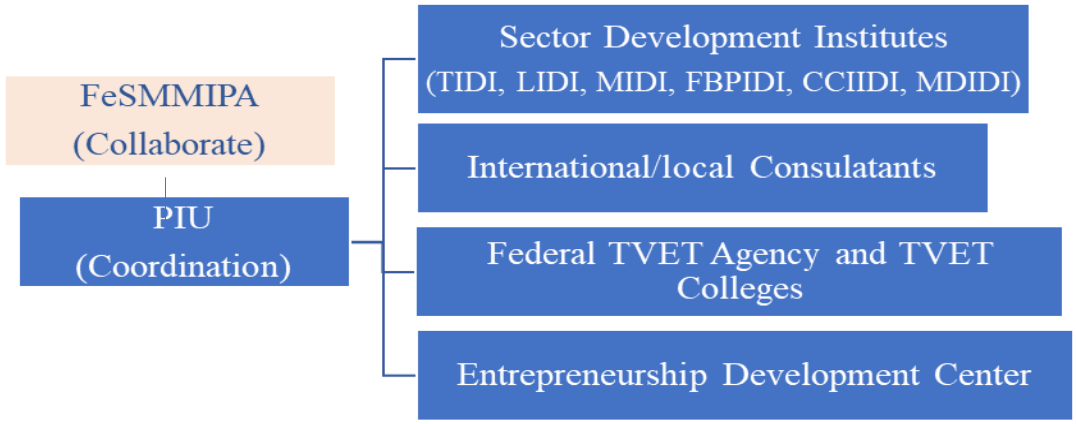
4.2 Institutional Arrangement for BDS

To effectively implement the sub-components under the BDS component a suitable institutional arrangement is essential. The institutional arrangement depends on the specific operational interventions under each sub-component. The institutional arrangement for each sub-component is presented below.

4.2.1 Building Firm Capability

As indicated in the description above the multiple implementers will be engaged in firm capability building. The PIU in collaboration with FeSMMIPA will undertake the implementation of firm capability building. The capacity building will entail the provision of a wide range of business trainings including the development of bankable business plans, better financial management (statements and records), better risk management, entrepreneurship, better marketing strategy and human resource management. These trainings require well developed and tailored content to enable firms to take actionable changes to the way they conduct business. This therefore requires a concerted effort of different stakeholders. This project will involve various stakeholder to undertake the trainings depending on the specific area. These stakeholders include international consultants/consulting firms, local consultants/consulting firms, Entrepreneurship Development Center (EDC), Technical and Vocational Education and Training Institutes (TVET) and the various sector development institutions. The PIU as the main implementation unit will collaborate with FeSMMIPA to acquire the services of the different stakeholders.

Figure 4.1: Coordination Structure for Building Firm Capability Sub-Component



PIU roles and responsibilities

- Prepare TORs for hiring of international consultant, the services of sector development institutes and the selection of TVETs in collaboration with FeSMMIPA
- Recruit consultant and lead needs assessment of SMEs;
- Engage with Sector Development Institutes and EDC to acquire their services in supporting the development of training modules
- Lead the review of training materials by international consultant and finalize training modules.
- Lead the selection of eligible SMEs according to the criteria set out in the project paper
- Lead recording and compilation of firm attribute data to enable rigorous analysis of impact
- Plan the logistics to conduct trainings and guide consultants, consulting firms, sector development institutes, TVETs and EDC in collaboration with FeSMMIPA
- Collect, compile, analyze and report on the implementation of the capacity building from the different stakeholders

FeSMMIPA roles and responsibilities

- Coordinate with PIU to review TORs for international consultant and the selection of TVETs
- In collaboration with PIU, coordinate a needs assessment of SMEs;
- Coordinate with PIU to engage with Sector Development Institutes and EDC to support the development of training modules

- Oversee the review of training materials by international consultant and finalize training modules.
- Participate in the selection of eligible SMEs according to the criteria set out in the project paper
- Support PIU in the collection and compilation of accurate and sufficient recording of firm attribute data to enable analysis of impact

Sector Development Institutes roles and responsibilities (if hired or agreement is reached with sector development institutes)

- Following PIU's TOR and subsequent agreements, conduct needs assessment of SME's business practices in their respective sectors
- Develop sector specific training modules following guidelines from the PIU and FeSMMIPA
- Improve training modules based on review and feedback from PIU, FeSMMIPA and international consultant
- Select SMEs to be trained based on the criteria set out in project paper in their respective sectors.
- Prepare a TOR for the selection of SMEs and select SMEs in their respective sectors
- In collaboration with PIU and FeSMMIPA organize the logistics needed for trainings
- Conduct relevant trainings according to the developed training modules and sector needs assessment
- In collaboration with PIU, prepare reports on the implementation of the trainings.
- EDC roles and responsibilities (if hired or agreement is reached with ECD). In collaboration with PIU and FeSMMIPA, conduct needs assessment of SME's business practices
- Develop sector specific training modules specifically focused on business development and entrepreneurship following guidelines from the PIU and FeSMMIPA
- Improve training modules based on review and feedback from PIU, FeSMMIPA and international consultant
- In collaboration with PIU and FeSMMIPA organize the logistics needed for trainings
- Conduct relevant trainings according to the developed training modules and business and entrepreneurship needs of SMEs;
- In collaboration with PIU, prepare reports on the implementation of the trainings.

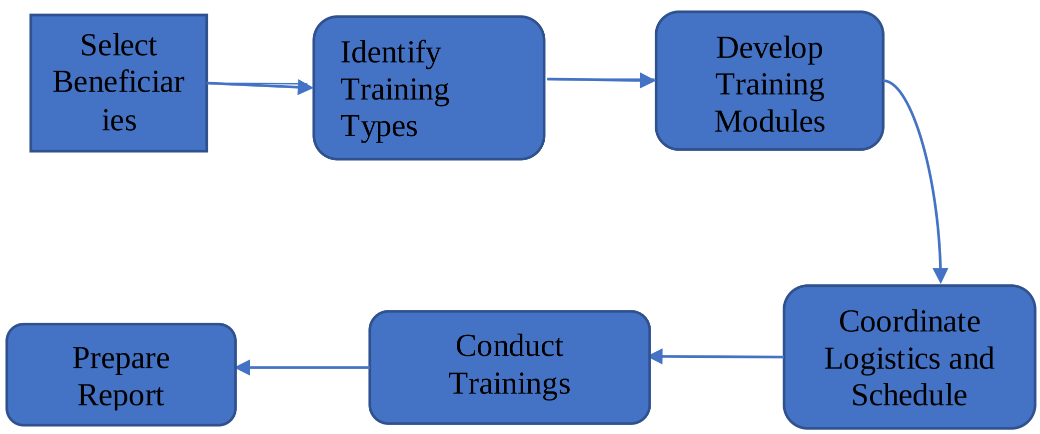
TVET roles and responsibilities (if hired or agreement is reached with TVETs)

- Based on the TOR developed by PIU, prepare proposals to provide training logistics services.
- In collaboration with PIU review the needs assessment of SMEs prepared by service providers
- Based on the needs assessment and training modules prepared by PIU service providers organize the necessary logistics and machinery needed for the training
- Conduct relevant trainings according to the developed training modules and business and entrepreneurship needs of SMEs;
- In collaboration with PIU, prepare reports on the implementation of the trainings.

International service provider of BDS

- Identify Training Types

Figure 4.1: Process for Building Firm Capabilities



Business Outsourcing Support

Business development services capacity building for firms often assume the conduct of all services within the firm. There is a tendency to focus on training the entrepreneur or the business manager to be equipped with the various business tasks including marketing, risk management, accounting, IT etc. However, recent evidence[26] suggests that considering the entrepreneur to be 'Jack of all trades' can be more costly for the firm compared to either insourcing expertise or outsourcing specific business functions to outside specialists. Thus, we design a process where the project links SMEs with eligible professionals and consulting firms that can provide SMEs with the necessary business services. This is expected to develop firm linkages and expand the benefit accrued to firms from the project.

[26] Anderson, Stephen J and David McKenzie, "A Randomized Experiment Comparing Training, Consulting, Insourcing and Outsourcing", December 2020, Policy Research Working Paper 9502, Word Bank Group, Development Economics

It is also expected to help firms address their business services needs in a more professional and specialized way.

Thus, this outsourcing support will have two parts. The first will incorporate training into how firms can identify and select business service providers. The second will establish a process of linking SMEs with eligible business service providers. Experiences from other countries suggest that this arrangement has led to longer term engagement between the firms and service providers even after the project is complete.

The first part will be included as part of the business training to be provided by service providers in the firm capability building exercise. If there are quality business outsourcing companies in Ethiopia, this activity will be triggered and a support/benefit package will be advertised by the PIU. Beneficiaries of the firm capability building sub component will be considered to benefit from the business outsourcing activity. The second part of linking SMEs with eligible business outsourcing service providers will be undertaken by the PIU. This will entail following the needs assessment conducted as part of the capacity building to identify and list potential business outsourcing service providers. It will then involve developing a system of identifying the appropriate business outsourcing service provider for the specific business services. Then the project will link SMEs with the service providers and support this linkage throughout the project cycle. To provide linkages, the PIU will use the business information centre proposed in the next section (after it is operational) to compile and provide the list of service providers that SMEs can access. This is in line with the business information center's role in collecting information on value chains and inputs suppliers. The stakeholders that will be engaged in this process include, PIU, business information center, database repositories for business like yellow pages companies, human resource service providers (for potential insourcing), …etc.

PIU's roles and responsibilities

- Based on the needs assessment, lead the training of SMEs in outsourcing services
- Based on the business services needs assessment identify which services are suitable for outsourcing
- Lead the selection of the services that are eligible for outsourcing by SMEs
- Lead the collection and compilation of contacts of eligible service providers suited for SMEs
- Lead the incorporation of the database with the Business Information Centre
- Match and link business service providers with eligible SMEs and support long term engagement
- Prepare report on the success and challenges of outsourcing support

Business Information Center's roles and responsibilities

- Based on guidance from the PIU collect and compile business service providers list
- Organize the database in a usable format
- Develop systems and mechanisms of matching business service providers with participating SMEs

- Contribute to the training of SMEs in outsourcing by availing business information that fit the specific context
- Submit input necessary for the reporting of the performance of outsourcing in the project.

Business repositories and human resource service provider's roles and responsibilities

- Based on guidance from the PIU collect and compile business service providers list
- Organize the database in a usable format
- Develop systems and mechanisms of matching business service providers with participating SMEs
- Contribute to the training of SMEs in outsourcing by availing business information that fit the specific context
- Submit input necessary for the reporting of the performance of outsourcing in the project.

Table 4.1: Activities for Building Firm Capabilities Sub-Component

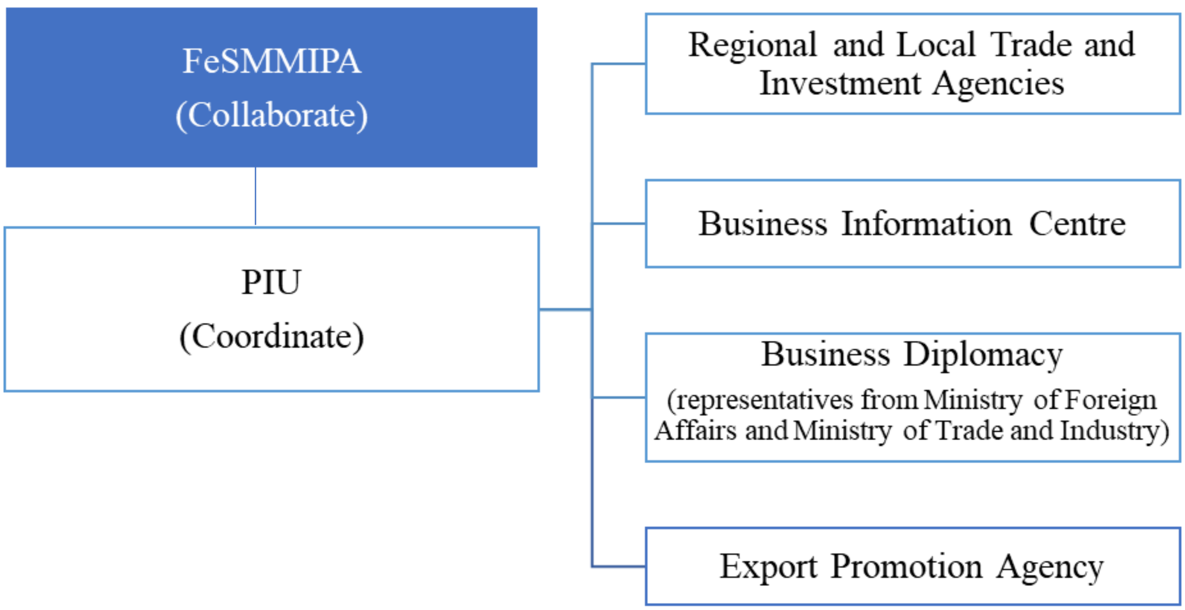
Activities	**Responsible**	**Budget (USD)**
1. Building Firm Capabilities - Training		**USD 2 mln**
1.1 Prepare TOR for International Consultant and Selection of TVET	PIU	
1.2 SME needs assessment	PIU, International Consultant,	100K
1.3 Selection of Eligible SMEs	PIU, SDIs, EDC	50K
1.4 Training Module Development		200K
1.5 Review Training Modules	PIU, International Consultant	50K
1.6 Organization of Logistics	PIU, TVET, EDC	1.6 mln
1.7 Reporting	PIU	
2. Building Firm Capabilities – Business Outsourcing		**USD 1.5**
2.1 Training of SMEs on Outsourcing (linked to 1)	PIU	
2.2 Identify business services suitable for outsourcing	PIU, International Consultant	50k
2.3 Collect and compile list of service providers	PIU and BIC	100k
2.4 Match and Link service providers with SMEs	PIU and BIC	100k
2.5 Commission (-%) of business services	PIU	1.25 mln

4.2.2 Market Access

This sub-component, as indicated above, supports SME's value chains by enhancing market linkage both upstream and downstream on the value chain. One of the key interventions in this sub-component will be to avail both local and global market information. It will also involve building the capacity of federal, regional and local investment and trade support agencies to strengthen institutional market access support. Similar to previous sub-component it will involve institutional arrangement with defined roles and responsibilities

Institutional Arrangement

Figure 4.3: Coordination Structure for Market Access Sub-Component



PIU roles and responsibilities

- Prepare TORs for international consultant and establishment of the business information centre in collaboration with FeSMMIPA
- Recruit consultant and lead business information needs assessment of SMEs;
- Engage with relevant stakeholders that support market access and value chain
- Lead the accurate and sufficient collection and compilation of market information data needed for the business information centre
- Lead the recruitment of required personnel and organization of logistics of the business information centre in collaboration with FeSMMIPA.
- Lead the promotion of the business information centre to SMEs through appropriate media

- Report on the establishment, performance and use of the business information system
- Report on the implementation of market access support via trade and investment agencies, export promotion agencies and business diplomacy

Trade and Investment Support Agencies roles and responsibilities

- Engage with FeSMMIPA to collaborate on local and regional business information sharing.
- Identify publicly accessible business information collected administratively
- In collaboration with FeSMMIPA compile the business information relevant to SMEs in a usable format
- In collaboration with FeSMMIPA, avail the business information to SMEs through the business information centre.
- Keep close engagement with FeSMMIPA to foster long term mutually beneficial relationship through information and knowledge sharing.

International Consultant Roles and Responsibilities

- In collaboration with FeSMMIPA, support the establishment of the business information centre through advice, preparation of TOR, recruitment and logistics,
- Support FeSMMIPA in coordinating business information exchange with regional and local trade and investment agencies
- Support FeSMMIPA in coordinating business promotion and business information exchange with Export Promotion Agencies.
- Support FeSMMIPA by reviewing plans, TORs, information templates and other outputs produced by other stakeholder within the remit of the sub-component.

Business Information Centre (BIC)

Business information centre is aimed at providing information across value chains for the targeted SMEs in the project. In addition, when as the centre develops, we expect that the centre will serve as a repository for SMEs in Ethiopia. The information pertains to broad economic and specific business information on local and global input sources and suppliers, technology related business information from sectoral development institutes, business practice information on finances, marketing, supply management, risk management. In addition, business information will include local and global market access information including list of wholesale and retail outlets and market places. As the institutional experience develops the centre will have sufficient information and data to build a repository of SMEs and related information.

The centre will be established and run by FeSMMIPA. The space for the centre will be provided by the FeSMMIPA and the project will finance the renovation/reestablishment of the space including design, construction and equipment. A construction supervision consultant will be monitoring and overseeing the construction. The scope of the renovation/reestablishment will be determined based on available project finances for the activity. The project will also purchase the necessary equipment needed to run the centre. SMEFP-AF will support the recruit of management and experts that facilitate the collection, compilation and provision of SME relevant business information to targeted SMEs. FeSMMIPA, in collaboration with the PIU and a consultant develop the structure, personnel requirement and logistics for the centre. The centre will undertake promotion of the services it provides to targeted beneficiary SMEs.

In addition to the establishment of the centre, capacity building of regional and local investment and trade bureaus will be undertaken. The capacity building will focus on the collection and compilation of data and information related to value chains and investment potentials of their respective areas.

The PIU will undertake the recruitment of the consultants for both the design and construction of the space and to the training to be provided to the local and regional investment and trade bureaus.

Business Diplomacy

Expansion of market access extends to international markets. This requires a timely and completed promotion of the comparative and competitive advantages in the different regions of Ethiopia. Particularly, adequate with promotion of SME's products in international markets is essential to broaden market domain for firm growth. Access to international markets helps firms to grow through better adoption of technology and standards of conducting business.

In order to promote investment and trade potentials along with broadening market for SMEs, this project will link with the Ministry of Foreign Affairs, particularly business diplomacy units and the Ministry of Trade and Industry. These stakeholders are engaged in economic and business promotion to international businesses and markets. More specifically the project intends to build capacity of attachés engaged in promoting business and investment opportunities and potentials in Ethiopia. The needs assessment under the firm capability building will assess the business diplomacy and export promotion agency capacities and recommend the gaps that the project could fill. If these capacity building programs can be delivered with any of the already hired consulting firms, the PIU will not hire new consulting firm. Otherwise, the PIU will engage with the two ministries, commission a consultant to prepare the training modules and provide the training. The training will focus on effective promotion of business and investment opportunities through better communication. The officials will be linked to the business information centre to obtain sufficient information on the different sectors and regions.

Figure 4.4: Business Information Centre Process

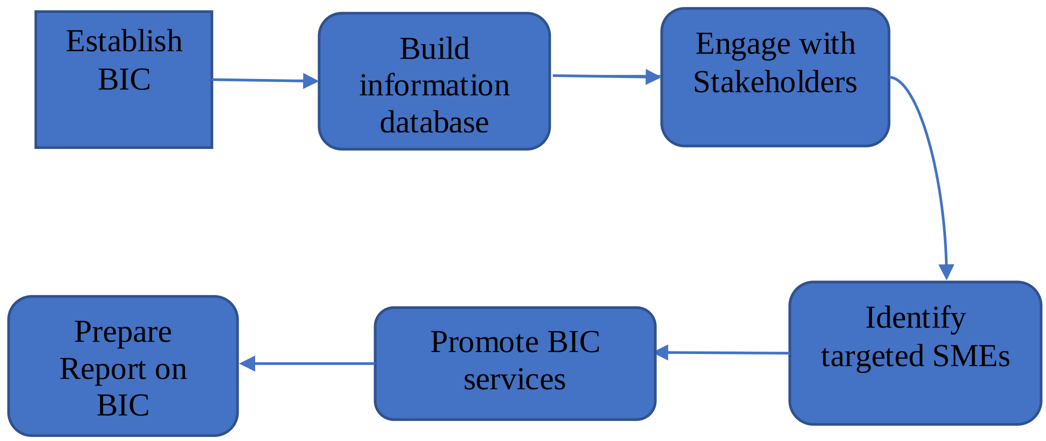


Table 4.2: Activities for Market Access Sub-Component

Activities	Responsible	Budget (USD)
1. Business Information Centre		**USD 5.5 mln**
1.1 Prepare TOR for commissioning of international consultant, design and construction consultant for the BIC	PIU and FeSMMIPA	500k
1.2 Secure a space for the BIC	FeSMMIPA and PIU	100k
1.3 construction and equipping of the BIC	PIU	3.6 mln
1.4 Recruit personnel for the operation of the BIC	FeSMMIPA and PIU	300k
1.5 Collect and Compile business and value chain information in a usable form	BIC	500k
1.6 Promote BIC to SMEs through appropriate media	PIU and BIC	100k
2. Business Diplomacy		**USD**
2.1 Prepare TOR for Consultant 2.2 Engagement with Ministry of Foreign Affairs and Ministry of Trade and Industry 2.3 Training Module Development 2.4 Review Training Modules 2.5 Organization of Logistics 2.6 Provision of Training 2.7 Reporting	PIU PIU, Consultant, Consultant PIU PIU, Ministry of Foreign Affairs and Ministry of Trade and Industry International Consultant PIU	100K 50k 100k 100k

4..2.3 Ethiopian Post- E-commerce Sub-Component

4.2.3.1 Introduction

Ethiopian Post has provided postal services for 127 years. Since its inception at the end of the nineteenth century, it has been the only DO in the country. Ethiopian Post has served as the main means of communication for millions of Ethiopians, at the time when options were limited.

Letter post, the flagship service of the industry used to be the main means of communication throughout the world some decades ago. Advances in digital technology have forced the postal sector to venture in the logistics of goods as communication through letter post became less attractive. The postal sector leveraged its geographical coverage to be the leader in last mile delivery of goods and commercial items. This has been facilitated by the use digital technology.

The competition in the core competencies of the postal sector has compelled DOs to diversify. The UPU has been in the forefront in supporting operators to venture in different services. The core competency of the postal sector and wider reach in all areas of the world became the biggest asset in launching new services. The logistics of parcels and financial services are a few of such services which benefited the traditional competencies of the postal sector.

The advancements in digital technology helped DOs modernize their operations and meet existing requirements. Many applications are used to ensure the traceability of items, ensure data sharing with supply chain partners and customers, optimize the use of resources and market services.

Their branch network, years of experience in the logistics sector, their obligation to provide a universal service (i.e. all residents of a country) and wider use of digital technology placed postal operators as natural implementers of e-commerce. The most expensive and difficult part of the e-commerce value chain, last mile delivery, is the core competency of DOs. Postal operators can excel in handling of e-commerce merchandise with little effort as their network of branches and business model suit these operations with no close competition.

UPU launched many programs to prepare DOs for e-commerce operation so that they can be instrumental in ensuring market access to the otherwise excluded parts of society. Economic inclusion of all is the priority in using the postal network to facilitate e-commerce. The UPU’s support is more relevant in developing countries as the DOs lack the capacity to launch e-commerce operations. Ethiopian Post has benefited from such programs.

Although Ethiopian Post has launched some initiatives to prepare for e-commerce operations, it is far from accomplishing its plans due limited capacity. If Ethiopian Post is enabled to launch e-commerce services, global and local market access will be provided to SMEs at a very low cost.

SMEFP-AF will help create market opportunity for SMEs by enabling Ethiopian Post for e-commerce operations. With its delivery network locally and access to the international postal network, Ethiopian Post would be the ideal logistics service provider to these SMEs.

4.2.3.2 Institutional Arrangement

Access to Market through Digital Solution sub component will be jointly implemented with EPS for technical leadership and PIU in FeSMMIPA for administrative matters.

a. Roles and Responsibilities

Roles and Responsibilities of EPS

- Prepare list of goods/equipment and consultants with cost estimate for procurement plan
- Prepare specification for goods and standard bidding document; prepare terms of reference, RFP for consultants
- Participate in the bid evaluations
- Provides consent on final selection of consultants, vendors and contractors
- Participate in negotiation meetings with winning consultants, vendors and contractors
- Supervise the works of contractors, vendors, consultants and provide update to PIC/PIU on the progress of subcomponent implementation
- Confirm the delivery of goods and services for payments to vendors, contractors, consultants

Roles and Responsibilities of PIU

- Prepare procurement plan and upload in the World Bank system
- Process procurement of goods and services, selection of consultant
- Undertake bid evaluation and contracting process
- Share information to EPS senior management on final selection of consultants, vendors and contractors
- Organize negation meeting with the winning consultants, vendors and contractors
- Follow up the implementation of the subcomponent
- Responsible for contract management

- Effect payments to vendors, contractors, consultants on the basis of confirmations provided by EPS

b. Ethiopian Post's brief company profile

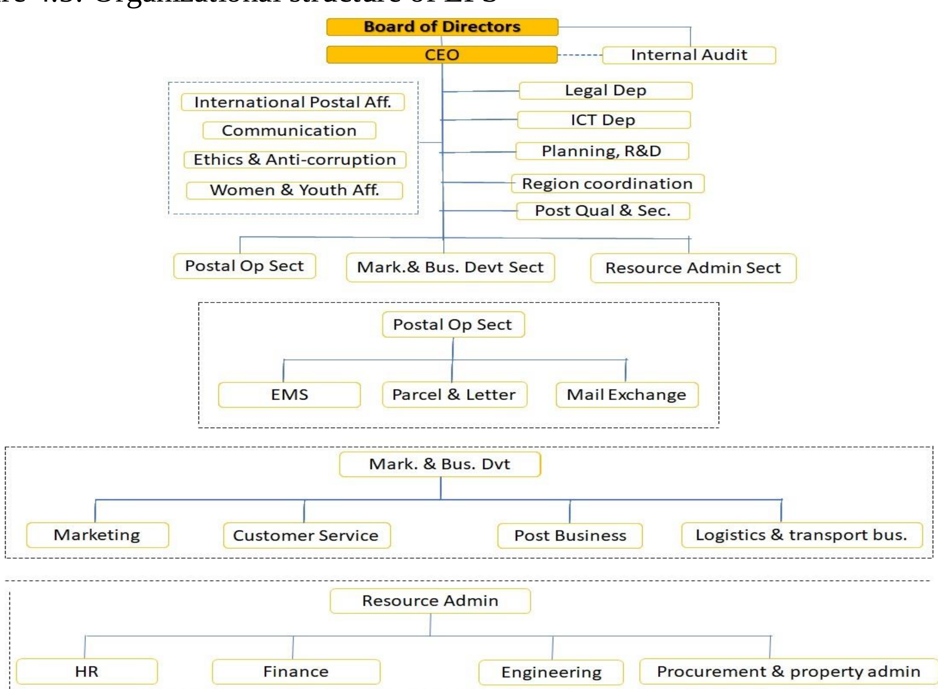
EPS operates about 900 branches under 32 zones and 8 regions. These branches are distributed throughout the country. The services offered at these branches range from traditional mail services to financial services which include pension payments, NGO payments and money transfer. These branches can play a great role in ensuring financial inclusion for the rural population.

The staff size has grown to more than 2500 in recent years. Most of these employees have worked in the organization for many years. Attempt is being made to increase the percentage of women employees in the management.

A new structure was implemented in 2019. A few adjustments are being made in the structure based on experience and study. This adjustment has become necessary due to mixing up of roles and responsibilities in different departments, department sizes not suited to their duties, lack of consideration of industry trends and developments etc.

The new adjustments will result in optimum use of resources, prioritize the core competencies of the organization, align with industry trends and developments and maximize profitability.

Figure 4.5: Organizational structure of EPS



Ethiopian Post faces challenges due to limited internal capacity that has not grown with the requirements of the industry. This has made the organization more traditional in its business approach. On the other hand, developments in the sector have been a blessing in disguise as modernizing is not an option but a requirement to stay in the postal network. The application of digital technology in the sector has helped Ethiopian Post benefit from the works of UPU and other inter-governmental organizations. That has helped EPS deal with its limitations internally. This is more pronounced in the areas of ICT, which has revolutionized all sectors. Lack of internal capacity hinders introduction of new services and improving efficiency of existing ones. The effect of this limitation has been countered by use of technology solutions developed by the UPU and vendors. Ethiopian Post is currently undergoing a series of reforms with the aim to make it a more efficient and competitive player in the market. The reform efforts are targeted at enhancing the institutional capacity by optimizing procedures, training staff; improving its financial standing by introducing new services and increasing the efficiency of existing ones; and building a strong company image and brand.

c. Ethiopian Post's strategic orientation towards e-commerce

The network of branches Ethiopian Post operates has made it the best partner in reaching the rural community and remote areas. The organization has been engaged in paying pensions, paying to beneficiaries and purchasing livelihood on behalf of IOM and collecting samples from different health institutions and transporting them to laboratories across the country for EPHI.

Governments can leverage this core competence of the postal network to ensure economic inclusion of the poor sections of society. It is to realize this ambition that UPU developed many programs to prepare the postal network for e-commerce operation. EPS has benefited from these programs in way of technical support and use of applications developed to facilitate the trade.

The government of Ethiopia has signed a cooperation agreement with UPU for the use of the postal network to start e-commerce trade. The project aims to make Ethiopia the e-commerce hub for East Africa. This agreement is for the provision of domestic and cross-border e-commerce operation to create market opportunity for SMEs. This PPP project intends to engage many stakeholders across the whole e-commerce value chain. EPS is the main implementer of the program leveraging on its branches, years of experience in the logistics of goods and use of digital technology. E-commerce is a strategic area for EPS as it increases the organization's revenue stream and contributes to the economic development of the country.

The digital strategy of FDRE identifies Ethiopian Post as a strategic entity to facilitate e-commerce.

Ethiopian Post recently completed the 2017-2020 cycle of UPU's Operational Readiness for Ecommerce (ORE) program. The organization has moved in the right direction to start e-commerce operation during this cycle. The 2021-2024 cycle is going to ensure commencement of e-commerce trade. This resonates well with the home-grown agenda of the government by creating market opportunity for SMEs in the global and domestic marketplace.

d. Ethiopian post's contribution to achievement of SMEFP-AF's project development objective (PDO) and its link with PDO level indicators

The e-commerce trade facilitated by Ethiopian Post creates international and local market opportunity for SMEs. EPS intends to develop virtual marketplace and link it to its postal system. This will also be linked to the physical warehouse storing products of SMEs. Other activities will also be executed to complete the physical and virtual value chain of e-commerce.

This takes the burden of marketing and logistics from SMEs and help them focus on their competency, manufacturing. EPS contributes in the achievement of SMEFP-AF's PDO in the following ways:

i. Develops an e-commerce marketplace and market the products of SMEs on its platform, thereby creating opportunity both in the local and international market. This takes the marketing burden off the SMEs
ii. Stores the products of the SMEs in its fulfilment centers increasing their efficiency in the space available for manufacturing
iii. Handles the logistics of goods from the site of manufacturing to the end users, sparing the SMEs from the hustle that takes their time and money

With all the above activities taken care of by Ethiopian Post, the firms can focus on building their capacity in manufacturing and managing their finances. This also increases their revenue and help them expand.

e. **Key entities and their responsibilities**
Ethiopian Post's board

The board is responsible to make strategic decisions and support the implementation. It also facilitates cooperation among different stakeholders. The board will support this project as it is of great priority and aligns with the strategic focus of the organization. The board meets every three months to follow up and evaluate the progress of the project.

Ministry of Innovation and Technology (MINT)

This component of SMEFP-AF will be an opportunity for the ministry to complete many of the interventions identified in the digital strategy document. This project will fulfil the three pillars of digital transformation out of the four identified in the strategy document; namely enablers, applications and the wider ecosystem. MINT will need to coordinate the involvement of other supply chain stakeholders for the successful implementation of the project.

2. E-commerce project objectives, activities, budget and timeline

The e-commerce system has two major components that are within the scope of the project:

i. **The digital component:** applications and their associated equipment that are required for the operation of e-commerce system. These consist of the virtual market place, fulfilment center management system and associated equipment, merchant's access (for SMEs) and integration between the various systems and the postal network. The data storage and computing capacity should also be improved to deal with the growing requirements.

ii. **Logistics component:** as this is the core competency of Ethiopian Post, no new development is required. But the handling capacity should be improved to deal with the requirements of e-commerce operation. The limited delivery capacity due to lack of vehicles is a factor that should be dealt with before commencing operation. A mix of vehicles for last mile delivery in cities, inter-city transport of manufactured goods, transporting goods from manufacturing facilities to EFC and trucks to handle big items is proposed. Manufactured goods should be stored in fulfilment centers after passing quality checks to ensure customer satisfaction and reduce the cost incurred due to return logistics. This will also help the SMEs use their storage space for production.

Objectives

The objective of the e-commerce component of SMEFP-AF is to provide market opportunity for SMEs. The objectives can be categorized as follows:

i. Broadening market opportunity by creating online marketplace for SMEs to sell their products and services
ii. Strengthening its end-to-end logistics services to provide fast delivery services, hence making the e-commerce trade the chosen mode of trade
iii. Broadening its financial services at the existing branches and providing payment services to ensure financial inclusion and effective e-commerce payment

a. Project activities, budget and timeline

	2021									2022												2023								
Activities	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S
Hire consultants																														
Market and project research																														
Project planning																														
RFP preparation																														
Bid process																														
Requirement gathering																														
System analysis																														
Design system																														
Piloting																														
Develop system																														
Purchase delivery fleet																														
Testing																														
Go live																														
Training																														
Hand-over to EPS																														

Activities	Responsible	Budget (USD)
4 Technical support	**SMEFP-AF**	**500,000**
4.3 Hire consultants: two consultants will be hired at the beginning and three will be added about six months after 4.4 Purchase furniture for consultants and project team 4.5 Purchase equipment (computers, printers etc.)		460,000 10,000 30,000
5 Project planning, development, market and project research, due diligence	**EPS, Consultants, UPU**	**100,000**
5.3 Market and project research: this will help gather data and requirements. It will involve travelling and conducting workshops for target SMEs 5.4 Project planning: after data and requirements are analyzed, target e-commerce system concept will be developed and project planned accordingly 5.5 Prepare RFP: this will be prepared based on the components of the project. UPU experts will support to prepare this document 5.6 Bidding process		60,000 40,000
6 E-commerce system	**Contractor, EPS, SMEFP-AF**	**4 million**
6.3 Requirement gathering: this answers the question 'what is the ultimate goal of the project?'. The requirements will be gathered through stakeholders meeting and research. Eligible SMEs will be engaged in this process. Types of products to be marketed and sold through the new system will be studied as it helps under the system requirements. 6.4 System Analysis: using the requirements as inputs, the overall system will be analyzed and the system components clearly understood. This stage of the process essential for designing an appropriate system. 6.5 System design: this process is to build system components, modules, interdependencies etc. A prototype will be developed at this stage before commencing development to see if the design achieves all the targets of	Contractor Contractor Contractor Contractor, EPS,	

the project. 6.6 Piloting: this is to run the prototype with few selected SMEs and test how the designed system performs. Necessary changes will be made on the design based on the results of the test. Stakeholders' meetings will be held to gauge satisfaction with the system and discuss necessary changes. 6.7 System development: this is the main development task that puts every component together to come up with a working end-to-end e-commerce system that performs on the scale agreed. 6.8 Testing: Standard and agreed upon methods will be implemented to test that the system works as intended. All the test results will be documented. Agreed level of performance and satisfaction should be achieved for the system to go live. 6.9 Go-live: this is the stage when the project moves from the test to the production environment. The system will initially be operated at a reduced capacity (jointly agreed) and progressively increased until full capacity is achieved. 6.10 Training: EPS staff and private firms will be trained on operation and management of the e-commerce system. This will be done to the satisfaction of EPS. 6.11 Hand-over to EPS: Plant and equipment, software, hardware and all other components that make up the system will be transferred to EPS. This will not transfer any liability of the contractor agreed in the provisions of the service. While taking over the system, EPS staff should prove that they are capable of running and maintaining the system.	SMEFP-AF Contractor Contractor, EPS, SMEFP-AF Contractor, EPS, SMEFP-AF Contractor, EPS, SMEFP-AF Contractor, EPS, SMEFP-AF	
7 Purchase delivery fleet:	**SMEFP-AF, EPS**	**1,000,000**
7.3 purchase 100 motorbikes: these bikes will be used for last mile delivery to target customers from fulfilment centers. 7.4 purchase 20 delivery vans: these will be used for transporting produces of the SMEs to the fulfilment centers and last mile delivery of bigger volume items. These will also be	SMEFP-AF, EPS SMEFP-AF, EPS	200,000 400,000

used for inter-city transport of manufactured goods. 7.5 Purchase 10 delivery trucks: manufactured goods of SMEs will need to be transported from their production sites to fulfilment centers where they will be checked for quality, added to the inventory and uploaded to the VMP. The goods will be transported to the EFC by using trucks. The trucks will also be used to deliver items that are too big to be handled by vans, like furniture.	SMEFP-AF, EPS	400,000
8 Operation and management	**PPP, contractor**	**400,000**
8.3 Form PPP for the operation and management: as the e-commerce system is going to be operated and managed by the PPP (EPS and private companies), competent private firms should be selected. The selection will be done through a transparent process. 8.4 Hold a series of trainings/workshop: the private firms will be trained on the operation and management of the system. SMEs will be trained on using the system.	EPS EPS	
9 Upgrading of IT infrastructure: the IT infrastructure will need to be upgraded to increase data storage capacity and processing speed, which will affect the performance of the e-commerce system		Based on availability of fund
Total		**5 million**

4.2.3.3 Implementation/Operation

a. Mode of engagement

The project will be rolled out in four stages.

i. The market research and project planning will be done by consultants hired by SMEFP-AF as technical assistance. This stage will also consist of preparation of TOR for procurement of services of a competent postal e-commerce system provider for the design, development and implementation of the project. An alternative arrangement will be partnership between such provider and an international firm working on e-commerce systems.

ii. The design, development and implementation of the project will be done by a competent firm/partnership. It will be responsible to train EPS/private firms/SMEs in the operation and management of the e-commerce system.

Hundred SMEs will be trained jointly by EPS and the service provider at the initial stage. EPS will train more SMEs as required.

iii. Handing over to EPS is the stage where all physical assets and systems are handed-over to EPS by the contractor.

iv. Operation and management: PPP model (between EPS and a private service provider) will be utilized for operation and management. Private firms in the delivery, ICT and other related sectors will be engaged in the operation & management of the e-commerce system. JV will be formed by EPS and a private sector firm to manage the system.

b. **Design and implementation**

A competent international firm/partnership (as in a.i above) will be hired for the design, development and implementation of the e-commerce system. The bidding process will conform to the procurement regulations of the world bank. Evaluation criteria will be developed by EPS in consultation with SMEFP-AF. Emphasis will be given to practical experience in implementing e-commerce system in the postal sector. Bids will be jointly evaluated by SMEFP-AF and EPS. The firm will supply all services and hardware that will be required for the project.

.

c. Piloting, testing and Go Live

Piloting

Pilot of the project should be implemented to test feasibility of the proposed system. This will be done before commencement of the development stage by building the prototype of the system and running it on a smaller number of target SMEs. The actual scenario will be simulated at every stage of the supply chain. Testing at this stage helps make necessary changes on the design and avoid expensive and time taking modifications at a later stage of the project.

All software, payment system, EFC management system, delivery system, track and trace services etc. should be piloted. A report on this phase will be presented to SMEFP-AF to test the feasibility of the project in achieving overall project objectives.

Testing

It is very important to test all works and services at agreed milestones to address all shortcomings before proceeding to the next stage in the project lifecycle. It helps detect errors before other systems are affected and reduces the cost of correcting these errors.

This starts with testing the pilot project and making necessary corrections. After processes and methodologies are agreed, milestones for testing are established. These tests should confirm compliance with agreed levels of performance, legislation and industry standards. All these details will be included in the TOR.

Final testing at the implementation stage is a prerequisite to go live. All agreed standards and requirements should be met before the project goes live.

Going live

The project will go live after all tests are performed to a satisfactory level and Ethiopian Post's board approves as such. By the time this takes place, all personnel taking part in the operation of the system will have completed necessary training. SMEFP-AF and EPS will hold workshop to train SMEs regarding the e-commerce system to be implemented before going live. Some selected SMEs will participate once the project goes live and the number will keep increasing as the implementation advances.

d. Implementation arrangement within EPS

Implementation of the project will be done by the contractor/consulting firm. The role of Ethiopian Post in this process is supervisory. Ethiopian Post will assign teams to follow up the project and ensure quality at all stages. Two teams will be formed for governance and management of the project. The day-to-day activities and overall implementation from Ethiopian Post's side will be led by a project coordinator assigned by the CEO.

The roles and responsibilities of the project coordinator are:

- Lead the project team at Ethiopian Post for the effective implementation of the project
- Liaise with the SMEFP-AF implementation unit
- Ensure timely implementation of the e-commerce project within budget
- Report progress of the project to the steering committee and the SMEFP-AF implementation unit
- Propose necessary changes in the project plan and seek approval of SMEFP-AF/steering committee
- Ensure execution of works as per contract
- Coordinate workshops and training programs

i. **Steering committee**: this will provide governance for the project and will be headed by Ethiopian Post's CEO. It receives periodic reports from the project team. The committee is responsible for making major decisions regarding the project.

ii. **Project team**: this team will be responsible for project research, planning, documentation, TOR preparation etc. The team will actively participate from the inception of the project to full implementation. It is responsible to supervise the project, check milestones, test and report to the steering committee. This team will have five members assigned by the CEO of Ethiopian Post. Relevant departments will be represented in the project team. The team will have the following roles and responsibilities:

- Prepare detailed project implementation plan and get it approved by the steering committee
- Supervise the project implementation and report the progress to the steering committee
- Plan and lead different capacity building initiatives to train personnel/departments responsible for operation of the e-commerce system
- Ensure proper utilization of project budget
- Coordinate with UPU experts in preparation of RFP and getting additional technical support
- Participate in the testing of project implementation at milestones agreed upon
- Approve designs and test results as agreed in the contract and seek approval of steering committee and SMEFP-AF project unit as required

The following departments will have main responsibilities in the operation of the system, hence will have active role in the implementation of the project.

IT department: this department will be responsible to oversee the operation and maintenance of all IT systems that are integral to the e-commerce operation. There is a separate division in this department that was established to provide e-commerce and digital solutions. This division will be tasked with administering all the IT systems. The division will be appropriately staffed by existing IT experts and hiring new ones. All will be trained on the new systems.

Logistics and transport business department: this department will be tasked with overseeing the fulfilment centers and the physical logistics of goods. This involves moving goods from their source to fulfilment centers, managing the warehouses and delivering the goods to the end users. All these operations are automated and complex systems will be used to integrate them with the online stores and postal systems. Lack of expertise in the department will be addressed by training the staff and hiring new professionals.

Marketing department: VMPs implement various ways of digital marketing strategy. Marketing staff will be trained on the tools and technics provided for marketing online and offline. This is very important as it cuts the enormous costs in the traditional marketing strategy.

e. Handover to EPS

The project will be fully handed over to EPS after one year of trouble-free operation. This is required to build the internal capacity to run the system and complete proper monitoring and maintenance phases of the project. Intensive on-the-job training will be given to EPS's staff and nominated private firms within this year. New staff will be hired where necessary and relevant training will be given before taking over the project.

f. **Operation and Management of the system**

Although the system is fully owned by EPS, PPP model of operation and management will prove effective. The composition will be planned after the pilot is completed as it helps determine what kind of partnership will be effective with that specific business model. The process of making this decision will be transparent and made by the steering committee.

As the system will have various components, private firms will be selected for respective operations. In addition to EPS itself, ICT firms, delivery companies and logistics companies are some of the private sector players that will be involved in the operation.

Management of the system would require experience and skill. JV will be formed between a competent firm and Ethiopian Post. This will help Ethiopian Post learn from experienced firms and build internal capacity. A competent firm with relevant experience in the field will be selected through transparent process.

g. Procurement of goods and of professional or technical services

All procurements, whether goods or services will be done as per the procurement regulations of the World Bank. Procurement shall be carried out centrally by the Project Implementation Unit (PIU) under the FeSMMIPA. TOR for selection of the consulting firm will be prepared by Ethiopian Post and approved by SMEFP-AF. The bidding process will be led by SMEFP-AF with the involvement of Ethiopian Post. The bid evaluation process will be jointly performed by SMEFP-AF and EPS.

h. Financial management arrangements

World Bank regulations and financial good practice will be followed. SMEFP-AF is tasked with managing the finances. All financial reports will be shared with Ethiopian Post's steering committee.

i. Capacity building needs

Due to lack of internal expertise to drive the project forward, SMEFP-AF will hire consultants for EPS. Two consultants will be hired at the initial stage with the provision of increasing the number to five in the later stages of the project. One consultant will lead the ICT component, hence an expert in the field will be hired. The other consultant will be in charge of digital business development and will be involved in the design of the end-to-end e-commerce system in cooperation with the ICT consultant.

More experts will be required as the project advances and SMEFP-AF will hire additional consultants.

j. Workplan for 2021

Task	Responsible	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Hiring consultants	SMEFP-AF/EPS									
Market/project research	EPS, UPU									
Project planning	EPS, UPU									
RFP preparation	EPS, UPU									
Bidding process	EPS, SMEFP-AF									
Requirement gathering										
System Design										

k. Monitoring and Evaluation (including milestones, indicators (targets))

The project will be continuously monitored by Ethiopian Post. SMEFP-AF's monitoring and evaluation specialist will involve in the monitoring of the implementation of the e-commerce project against the results in the PAD and specific milestones to be agreed with service providers. Agreements and other project documents, regulatory requirements, good practices will be used as guidelines. The implementation will be evaluated quarterly and at the end of every task. The Board of EPS will meet quarterly and evaluate implementation of the e-commerce system. The end of every task marks a milestone. Milestones for the design, development and implementation of the project will be part of the agreement. Test results, financial reports and onsite inspection will be used for monitoring and evaluation of the project. The completion of every task will be evaluated against deliverables agreed upon the start of work with each consultant/consulting firm or contractor.

The following table depicts the project deliverables for 2021

Task	Responsible	Deliverable	Approver
Hire consultants	SMEFP-AF, EPS	Five consultants who will assist EPS in the project development, supervision and implementation (2 at the beginning and 3 in a later stage)	SMEFP-AF
Market/project research	EPS, UPU	Report on the different components of the project. Internal and external factors analysis report. Project feasibility analysis report	SMEFP-AF
Project planning	EPS, UPU	Detailed project plan with estimated budget	SMEEP
RFP preparation	EPS, UPU	RFP	SMEFP-AF
Hiring consulting firm/contractor	SMEFP-AF, EPS	Competent postal e-commerce development company/partnership selected to design, develop and implement full-fledged e-commerce system	SMEFP-AF
Requirement gathering	Contractor	Easily accessible repository of requirements	EPS
System analysis	Contractor	Properly analyzed requirements	EPS

The evaluation will be performed by Ethiopian Post (steering committee) and reported to SMEFP-AF.

Final evaluation of the project will be performed against project deliverables and PDO. The contribution of the e-commerce project components to the achievement of the overall PDO is indicated below:

Overall PDO	**E-commerce project component**	**Contribution to PDO targets**
Build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic	End-to-end e-commerce solution	• Local and international market access to eligible SMEs • Increased revenue for participating SMEs • Enhanced production capacity and storage facilities at EFC
	Training on using e-commerce system	• Building capacity of SMEs in using e-commerce platform • Improved online marketing strategy for the firms
	Operation and management of the system	• Building private sector capacity in the operation and management of e-commerce system • Scalable e-commerce platform will serve as an entry point for new SMEs and other private businesses
	E-commerce logistics/delivery logistics	• This will build the SMEs capacity by handling the full logistics process • Transporting manufactured goods, storage and last mile delivery at minimal cost increases the profitability of firms, hence available finance for production

V. FINANCIAL MANAGEMENT AND PROCUREMENT

A. 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-AF. 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 this 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-AF 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 efficient control and monitoring of the use of funds and other assets available to SMEFP-AF 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-AF, and are designed to:

- Promote orderly, economic, efficient and effective operations consistent with the SMEFP-AF 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-AF assets; and
- Ensure compliance with applicable laws, financial policies and regulations.

The financial management of the SMEFP-AF 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 FeSMMIPA. 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 are described for both implementing agencies FeSMMIPA 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-AF, 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 10,000 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 project appraisal document/financing agreement. 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-AF for the components implemented by FeSMMIPA 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-AF

Components implemented by FeSMMIPA: Budgeting is a process of planning and controlling of the use of resources for achieving the desired objectives during a defined period. The SMEFP-AF 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 FeSMMIPA 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, FeSMMIPA will include the budget of the project in to its own annual budget and work plan and submit it to MoF following the government's budget calendar. The budget will be proclaimed under the name of FeSMMIPA 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) as well as for derisking facility. Using its experience and professional judgment, DBE will approve an annual work plan and will submit it to the World 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 FeSMMIPA. Although overall coordination of the project rests with FeSMMIPA, 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 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 FeSMMIPA and DBE for implementation of their respective components of the project. Ceiling for advances is US$500,000 for the PIU in FeSMMIPA and US$12,000,000 for DBE.

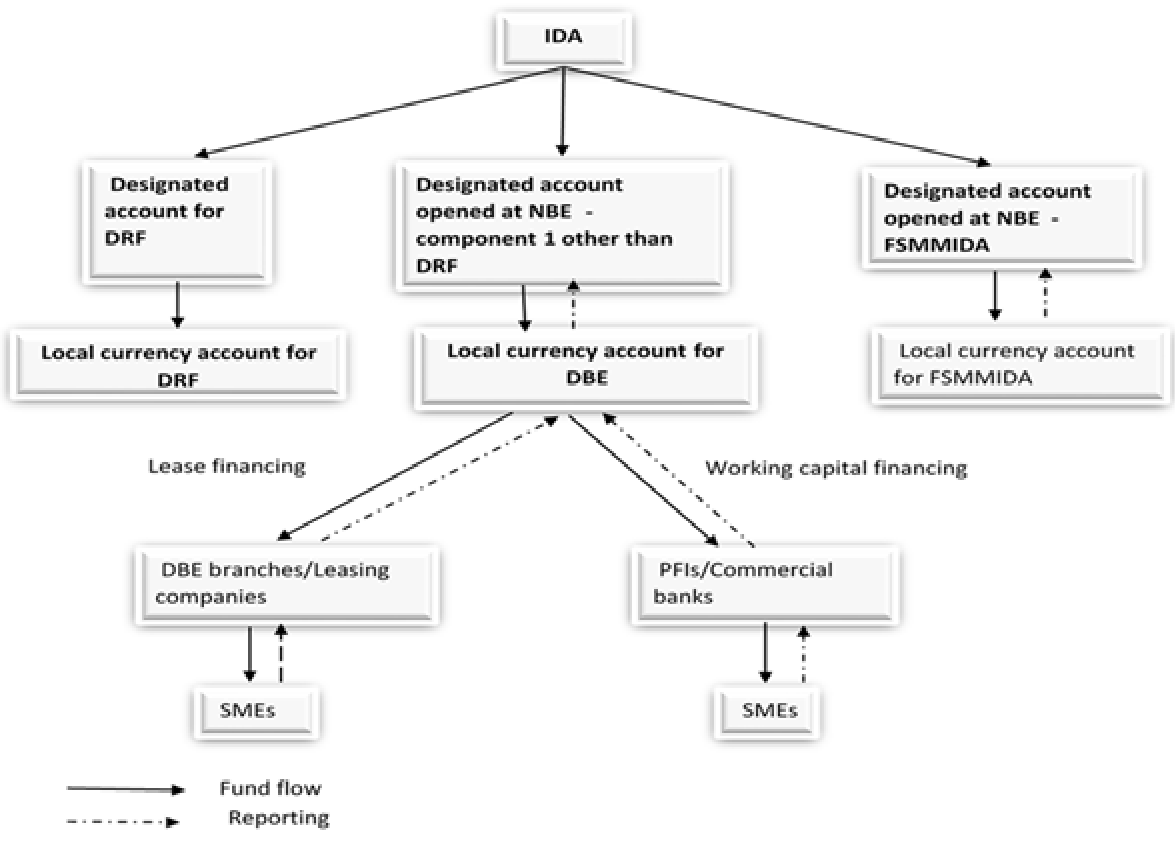
ii. Reimbursement of payments for payments the recipient has already made from its own resources;

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 FeSMMIPA.

Figure 5.1: 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 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 trial 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-AF 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

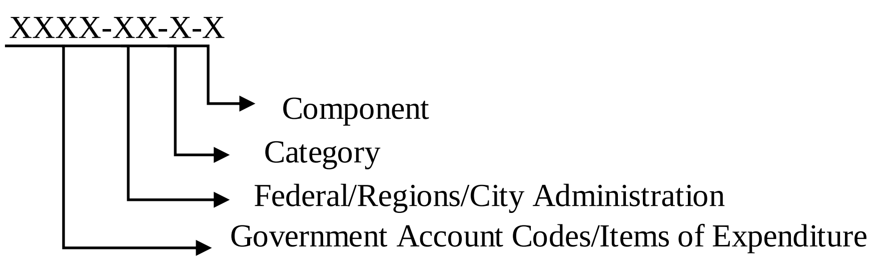


Table 5.1: Codes of Project Components and Categories

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 financer, leasing and working capital windows, participating financial institutions and DBE branches in its core banking system, T-24. Also, derisking facility needs to be adequately captured in the DBE chart of accounts.

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 works, goods, non-consultant services and consultants

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-AF’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 accepted additional contract variations;
- 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/approved by PIU Coordinator. 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 FeSMMIPA, Director of Procurement, Finance and Property Administration Directorate and PIU Coordinator.
- Cheques should never be signed in blank.
- 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 20,000 (Twenty Thousand Only) for SMEFP-AF.
- 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/FeSMMIPA 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.
- The amount of a single payment from the petty cash shall be limited to Birr 3,000 (Three Thousand). Payment in excess of Birr 3,000 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 25% 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.

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 FeSMMIPA 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-AF official duties shall be approved by Director General of FeSMMIPA unless and otherwise the project applies the government rate for per diem and hotel accommodations. In any cases, the travel expenses including per diem and hotel accommodations are approved by PIU Coordinator.
- The project staff benefits package that includes health insurance, transport allowance and cell phone airtime shall be approved by PIU Coordinator.

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.

- PIU staff salaries are negotiated with each recruited staff and contact shall be signed accordingly and renewed with 10 percent annual increment, based on performance evaluation (Annex 5.18) and availability of resources.
- The monthly salaries of existing staff shall be adjusted to reflect the current market for project staff: (i) PIU Coordinator Birr 45,000 (ii) Non-Financial Service Coordinator Birr 40,000 (iii) Specialists Birr 38,000 (iv) Administrative staff 50 percent increment. Annual renewal with 10 percent increment and performance evaluation are applied to the existing staff. Also, the adjusted salaries shall serve as basis for hiring new staff with similar positions.

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.
  - 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 Revenues 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 Revenues 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 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 continue 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 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 works, goods and services by the SMEFP-AF. Detailed procurement policies, procedures and guidelines are contained in the SMEFP-AF Procurement Manual.

- All personnel involved in procurement should be well versed with the regulations 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 procedures in the procurement manual.

5.12.2 Purchasing of Works, Goods, Non-consultant Service and Selection of Consultants

- All purchases of works, goods, non-consultant services and selection of consultants are approved by PIU coordinator.
- Hiring of PIU Coordinator is approved by Director General of FeSMMIPA
- Hiring of all other PIU staff is approved by PIU Coordinator
- 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 PIU Coordinator.
- 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 FeSMMIPA.

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 transport and lunch allowances for workshop/training/meeting participants will be determined and approved by PIU Coordinator.
- The payments are authorized by PIU Coordinator.

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, FeSMMIPA 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. In any inconvenient cases, fuel may be purchased directly.
- 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 FeSMMIPA. Both reports will be due within 45 days of the quarter end.
- For the financial report from FeSMMIPA, the Financial Management Specialist will consolidate the quarterly reports and submit to FeSMMIPA 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 FeSMMIPA will assist the SMEFP-AF in reviewing its activities by including the project in their annual work plans. Quarterly internal audit reports will be submitted to FeSMMIPA 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 FeSMMIPA.

DBE's internal audit unit regularly reviews the transactions of Bank financed operations. The same approach will be adopted for SME Finance Project – Additional Finance 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 FeSMMIPA), 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 FeSMMIPA 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 FeSMMIPA 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 FeSMMIPA will pay the audit fees for both DBE and FeSMMIPA.

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 in FeSMMIPA and the PMT in 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/FeSMMIPA 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 in FeSMMIPA 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.

B) Procurement

Procurement under the proposed SMEFP-AF will be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers: 'Procurement in Investment Project Financing, Goods, Works, Non-Consulting, and Consulting Services', dated July 1, 2016, revised November 2017 and August 2018, and the provisions stipulated in the Financing Agreement and shall be subject to the World Bank's Anticorruption Guidelines, dated October 15, 2006, revised in January 2011, and as of July 1, 2016. The project will use the Systematic Tracking of Exchanges in Procurement (STEP) to plan, process, record, and track procurement transactions

The PIU, at the implementing agency of the SMEFP-AF, will use standard procurement documents issued by the World Bank to be used by borrowers for IPF-financed projects as well as standard bid evaluation forms for procurement of goods, works, and non-consulting contracts which are to be procured through open international competitive bid. Implementing agencies shall also use the World Bank's Standard Request for Proposals, sample format for Request for Specific Procurement Notices, Request for Expression of Interest, and the sample form of evaluation report for selection of consultants.

When approaching the national market, as shall be agreed in the Procurement Plan, the country's own procurement procedures as well as standard procurement documents for procurement of goods and works may be used, subject to the requirements provided in section 5, paragraph 5.4 of the Procurement Regulations. Other national procurement arrangements (other than national open competitive procurement) that may be applied by the borrower (such as limited/restricted competitive bidding, request for quotations/local bidding, and direct contracting) shall be consistent with the World Bank's core procurement principles and ensure that the World Bank's Anticorruption Guidelines and Sanctions Framework and contractual remedies set out in its Legal Agreement apply.

Procurement under the proposed SMEFP-AF shall be carried out by the SMEFP-AF PIU in the FeSMMIPA. All procurement activities of the project which are limited to low-value procurement of goods and services and include procurement of office furniture and equipment, communication materials, and the selection of consultants, including project staff, project financial audit, and consultancy services of the BDS provider for technical training, shall be carried out centrally by the SMEFP-AF PIU in the FeSMMIPA. The project and FeSMMIPA will set up a procurement approval committee that is specific to the project. In addition, the project coordinator will set up bid evaluation committees specific to each procurement activity composed of relevant technical staff on case by case basis. The DBE is also the implementing agency of the project for the on-lending of resources to MFIs or SMEs who are beneficiaries of the AF. However, in accordance with paragraph 2.2 of the Procurement Regulations, World Bank procurement procedures do not apply to the procurement of goods, works, non-consulting services, and consulting services financed by the World Bank through loans made by eligible financial intermediaries to private borrowers.

To understand the procurement environment under which the SMEFP-AF is to operate, a project procurement risk assessment of the implementing agency, FeSMMIPA/SMEFP-AF PIU, was carried out. The assessment reviewed the organizational structure for implementing the proposed SMEFP-AF, and the staff responsible for procurement in the implementing agency. The assessment also looked into the legal aspects and procurement practices, procurement cycle management, organization and functions, record keeping, planning, and the procurement environment. The procurement system of the SMEFP-AF implementing agency is assessed as to the extent to which the planning, bidding, evaluation, contract award, and contract administration arrangements and practices provide a reasonable assurance that the project will achieve intended results through its procurement processes and procedures. In addition, the procurement system's assessment also considers how the FeSMMIPA/PIU handles the risks of fraud and corruption, including by providing a complaint handling mechanism, and how such risks are managed and/or mitigated.

The procurement risk assessment has indicated that the SMEFP-AF PIU in the FeSMMIPA has maintained one experienced procurement staff, who can handle the procurement of goods and consulting and non-consulting services required under the project with a reasonable level of efficiency and effectiveness, since the beginning of implementation of the project. The procurement activities at the PIU are carried out in accordance with agreed procedures of the World Bank. Government proclamations and directives provide the basis for the procurement policy framework, regulations, and procedures for all procurement activities to be carried out at the FeSMMIPA. Most procurement and related staff are considered familiar with the Procurement Manual of the SMEFP-AF. However, these staff are not familiar with World Bank procurement procedures and this poses a serious challenge when they are assigned as evaluation committee members and in other procurement processing activities.

Procurement plans are prepared and approved in STEP by the SMEFP-AF PIU. However, processed procurement activities are not regularly and timely uploaded in STEP upon completion of each step in the process. Complete procurement documents are not available for some procurement activities under the project. As a result, carrying out post-procurement review or procurement audit is a challenge in the SMEFP-AF. Although external independent bodies oversee the procurement activities at FeSMMIPA, the internal auditor's capacity to carry out procurement audits with particular reference to World Bank-financed procurement procedures need to be enhanced through capacity building. Contract management is another area of weakness. The procurement staff with no training in contract management is responsible for such activities. Hence, there is a need to strengthen contract management in the FeSMMIPA and the PIU.

In general, there is a reasonable capacity to carry out the procurement activities in the PIU for the proposed SMEFP-AF, provided that the below risk mitigation measures are implemented. Since the procurement activities under the project are limited and these are low-value procurement activities, the procurement risk is not considered to be high. However, there are gaps in undertaking procurement planning and procurement processing including preparation of procurement documents, bids/proposals evaluation, contract awards, and record keeping, which need to be improved. Delays in procurement processing, particularly delays in procurement decision-making, also need to be addressed. Overall, the procurement risk rating for the proposed AF is Substantial.

The identified procurement risks and proposed mitigation measures are provided in table 5.3.

Table 5.3. Summary of Findings and Actions (Risk Mitigation Matrix)

No.	Issue/Risk	Risk Level	Mitigation Measures	Responsible Body	Time Frame
1.	Procurement staff and staff related to procurement not familiar with the World Bank's New Procurement Framework and the Procurement Regulations	Substantial	1. Procurement staff and related staff such as Procurement Endorsing Committee members, evaluation committee members, and internal auditors to be provided basic training in the World Bank's Procurement Regulations. 2. The procurement staff and related staff shall be provided with basic training in management of procurement of goods and equipment, and selection and employment of consultants.	PIU/FeSMMIPA /World Bank	During project implementation
2.	Delays in processing of procurement activities, in the evaluation of bids/proposal	Substantial	1. Establish performance standards to be maintained by the entity and PIU in the processing of procurement activities and in procurement	PIU/FeSMMIPA	During project implementation

No.	Issue/Risk	Risk Level	Mitigation Measures	Responsible Body	Time Frame
	s, and delays in decision-making		decision-making and ensure that such standards are maintained and reported.		
3.	Procurement plans not updated regularly, processed procurement documents not uploaded in STEP and not used for monitoring purposes	Substantial	Capacity building be carried out on the requirements for Procurement Plans/STEP	FeSMMIPA/PIU /World Bank	During project implementation
4.	Skill gaps in contract management at the PIU	Substantial	Contract management at the PIU and FeSMMIPA needs to be strengthened through capacity building.	FeSMMIPA/ PIU/World Bank	During project implementation
5.	Internal control needs to be strengthened.	Substantial	Train internal audit staff in procurement audit and strengthen procurement oversight on the entities and carry out independent audits annually.	FeSMMIPA/ PIU/World Bank	During project implementation

The PIU of the FeSMMIPA is preparing the PPSD which forms the basis for a Procurement Plan for the first 18 months of the proposed AF and also provides the basis for the procurement methods. This plan shall be agreed between the PIU of the SMEFP-AF and the project team and will be available at the PIU of the FeSMMIPA. It will also be available in the project's database and on the World Bank's external website. The Procurement Plan will be updated by the project team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Procurement oversight and monitoring arrangements. Mandatory thresholds for prior review for the proposed AF based on procurement risk levels of the project are provided in table 3.2. Based on the risk level of the SMEFP-AF, procurement above the applicable thresholds specified in the table shall be subject to prior review and shall be included in the Procurement Plan. Such procurement activities shall use the World Bank's standard procurement documents. For post-review contracts undertaken by the PIU of the SMEFP-AF, the World Bank staff or World Bank-appointed consultant shall carry out post-procurement reviews at the end of each fiscal year.

Based on the initial risk rating, the SMEFP-AF PIU shall seek the World Bank's prior review for equivalent value of contracts, as detailed in table 5.4.

Table 5.4. Thresholds for Procurement Approaches and Methods (US$, millions)

Category	Prior Review (US$, millions)	Open International	Open National	Request for Quotations	Short List of National Consultants	
					Consulting Services	Engineering and Construction Supervision
Works	≥10.0	≥7.0	<7.0	≤0.2	n.a.	n.a.
Goods, IT, and non-consulting services	≥2	≥1.0	<1.0	≤0.1	n.a.	n.a.
Consultants (firms)	≥1.0	n.a.	n.a.	n.a.	0.2	0.3
Individual consultants	≥0.2	n.a.	n.a.	n.a.	n.a.	n.a.

VI. MONITORING AND EVALUATION

6.1 Introduction

The monitoring and evaluation (M&E) system of SMEFP-AF 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-AF 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-AF 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-AF 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 Promotion Authority 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 FeSMMIPA 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-AF 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.
- 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 stakeholders' meetings, workshops and seminars to monitor and evaluate project progress;
- Prepare self-assessment project Implementation Completion Report (ICR) of SMEFP-AF 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 Promotion Authorities/Bureaus (ReSMMIPAs)

The key role of Regional Small and Medium Manufacturing Industries Promotion Authorities/Bureaus 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 Promotion Authority;
- Allow access to documented files for on-site supervision and data verification by SMEFP-AF 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 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 of 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 client's registration and open a SMEFP-AF 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 MoF 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 client's registration and open a SMEFP-AF members file using Membership Identification Numbers issued;
- Collect feedback from participants and analyze and communicate results/findings with PIU;
- Prepare and submit reports on results indicators of BDS to PIU (FeSMMIPA)

SMEFP-AF 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-AF M&E System

The implementation of the SMEFP-AF 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-AF 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-AF 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-AF.

Table 6.1: Comparison of Monitoring and Evaluation of SMEFP-AF

Issues/ questions	**Monitoring**	**Evaluation**
What	Monitoring is the process of routinely gathering data/information on all SMEFP-AF result indicators. Basically, for the use of project management decision.	Evaluation is an assessment to value results achieved due to the SMEFP-AF'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	• 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-AF, • 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-AF implementation levels, • Make decisions on the proper utilization of project's resources.	• SMEFP-AF'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-AF 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-AF evaluation is conducted periodically: • 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-AF 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-AF is the formal process of documenting the project achievements: • 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 • Effectiveness of the project • Impact of the project • Efficiency or cost effectiveness & sustainability.

Issues/ questions	**Monitoring**	**Evaluation**
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-AF 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. 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 staff possibly representatives of project implementers and SMEFP-AF clients.

Project's self-assessment evaluation shall also be conducted by the SMEFP-AF 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-AF M&E System

SMEFP-AF 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-AF data base; and measure results using the indicators.

6.4.3 Monitoring of SMEFP-AF

Monitoring refers to a routine checking of the day-to-day SMEFP-AF 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-AF 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-AF

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-AF

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 (World Bank)						

The evaluation should answer 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-AF, 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-AF, 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.

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-AF's exit strategy to enable mainstream the project long term objectives with the regular government planning & implementation system.

Impact Evaluation

The impact evaluation component of SMEFP-AF 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 during the implementation of the parent project and SMEFP-AF: (1) a base-line survey, prior to respondents' exposure to any relevant intervention activities; (2) a mid-line survey during project implementation of the parent project; and (3) an end-line survey which will be administered after SMEFP-AF 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.

6.4.5 SMEFP-AF 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-AF 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-AF results framework.

Table 6.3: SMEFP-AF M&E Planning Worksheet

Project Development objectives (PDO): To increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic

Result Indicators	*Baseline*	DATA COLLECTION								DATA ANALYSIS AND USE			
		Intermediate Targets (cumulative)				*Source of Information*	*Data collection Tools/ Methods*	*Frequency*	*Responsi bility*	*Frequency*	*Responsi bility*	*How information is to be used*	*Dissemination (who)*
		Yr1	*Yr2*	*Yr3*	*End target*								
Project Development Objective Indicators by Objectives/ Outcomes													
Volume of Financial Support to SMEs under the credit facility and DRF (Amount in US$).	US$ 218m	US$ 300m	US$ 390m	US$ 480m	US$ 548m	DBE, Participating Commercial Banks and Microfinance institutions, leasing companies, SMEFP-AF clients, stakeholders	Reports	Monthly, Quarterly, Annual	PMT/ DBE	Monthly, Quarterly, Annual	PMT/ DBE	Analyze quantitative data collected from reports	PMT/ DBE
Number of SMEs Reached with Financial Services under the credit facility and DRF (Number)	1,452	2,000	2,800	3,700	4,200	DBE, Participating Commercial Banks and Microfinance institutions, leasing companies, SMEFP-AF clients, stakeholders	Reports	Monthly, Quarterly, Annual	PMT/ DBE	Monthly, Quarterly, Annual	PMT/ DBE	Analyze quantitative data collected from reports	PMT/ DBE
Portfolio Quality under the credit facility (Percentage)	6%	8%	7%	6%	5%	DBE, Participating Commercial Banks and Microfinance institutions	Reports	Annual	PMT/ DBE	Annual	PMT/ DBE	Analyze quantitative data collected from reports	PMT/ DBE

Project Development objectives (PDO): To increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic														
Result Indicators	***Baseline***	**DATA COLLECTION**								**DATA ANALYSIS AND USE**				
		Intermediate Targets (cumulative)				***Source of Information***	***Data collection Tools/ Methods***	***Frequency***	***Responsi bility***	***Frequency***	***Responsi bility***	***How information is to be used***	***Dissemination (who)***	
		Yr1	***Yr2***	***Yr3***	***End target***									
Beneficiaries reached with financial services (CRI, Number)					2,152	DBE, Participating Commercial Banks and Microfinance institutions	Reports	Annual	PMT/ DBE	Annual	PMT/ DBE	Analyze quantitative data collected from reports	PMT/ DBE	
Number of SMEs served with business development service (Number)	218				1,500	FeSMMIPA and BDS Providers	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Analyze qualitative information collected from reports	PIU/ FeSMMIPA	
Intermediate Results Indicators														
Number of Loans/ Leases disbursed to SMEs	1,853	2,400	3,000	3,500	4,000	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	
Collateral Registry Operationalised (Yes/No)	No				Yes	NBE	Reports and field visits	Annual	PIU/ FeSMMIPA/ NBE	Annual	PIU/ FeSMMIPA/ NBE	Analyze qualitative information collected from reports	PIU/ FeSMMIPA/ NBE	
Strengthened capacity of DBE for risk assessment and management of innovative financial products. (Yes/No)	No	Yes	Yes	Yes	Yes	DBE	Reports	Annual	PMT/ DBE	Annual	PMT/ DBE	Analyze quantitative data collected from reports	PMT/ DBE	

Project Development objectives (PDO): To increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic

Result Indicators	*Baseline*	DATA COLLECTION								DATA ANALYSIS AND USE			
		Intermediate Targets (cumulative)				*Source of Information*	*Data collection Tools/ Methods*	*Frequency*	*Responsibility*	*Frequency*	*Responsibility*	*How information is to be used*	*Dissemination (who)*
		Yr1	*Yr2*	*Yr3*	*End target*								
(Yes/No)													
Percentage of women-owned SMEs benefiting from the credit line and DRF (Percentage)	14				28	FeSMMIPA and BDS Providers	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Analyze qualitative information collected from reports	PIU/ FeSMMIPA
Insolvency Regime revised and approved by the Parliament (Yes/No)	No				Yes	NBE	Reports and field visits	Annual	PIU/ FeSMMIPA/ NBE	Annual	PIU/ FeSMMIPA/ NBE	Analyze qualitative information collected from reports	PIU/ FeSMMIPA/ NBE
Citizen Engagement Survey Conducted (Yes/No)	No				Yes	FeSMMIPA and BDS Providers	Reports	Annual	PIU/ FeSMMIPA	Annual	PIU/ FeSMMIPA	Analyze qualitative information collected from reports	PIU/ FeSMMIPA
Number of SMEs that received training through a BDS Program under the project (Number)	218				1,500	FeSMMIPA and BDS Providers	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Analyze qualitative information collected from reports	PIU/ FeSMMIPA
Number of women owned SMEs that received business development service (Number)	70				500	FeSMMIPA and BDS Providers	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Analyze qualitative information collected from reports	PIU/ FeSMMIPA
Number of supported SMEs that subscribed to	0				100	FeSMMIPA and EPS	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Monthly, Quarterly, Annual	PIU/ FeSMMIPA/	Analyze qualitative information	PIU/ FeSMMIPA/

Project Development objectives (PDO): To increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic

Result Indicators	***Baseline***	**Intermediate Targets (cumulative)**				**DATA COLLECTION**				**DATA ANALYSIS AND USE**			
		Yr1	***Yr2***	***Yr3***	***End target***	***Source of Information***	***Data collection Tools/ Methods***	***Frequency***	***Responsi bility***	***Frequency***	***Responsi bility***	***How information is to be used***	***Dissemination (who)***
the e-commerce platform (Number)											EPS	collected from reports	EPS
Business Information Center launched (Yes/No)	No				Yes	FeSMMIPA	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Analyze qualitative information collected from reports	PIU/ FeSMMIPA
Number of federal and regional investment and trade support instiution staff trained on export promotion, business diplomacy ..etc (Number)	0				50	FeSMMIPA and BDS Service Providers	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Analyze qualitative information collected from reports	PIU/ FeSMMIPA
Private Participation model for management and operation of SME market and production sites developed (Yes/No)	No				Yes	FeSMMIPA and EPS	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	Monthly, Quarterly, Annual	PIU/ FeSMMIPA/ EPS	Analyze qualitative information collected from reports	PIU/ FeSMMIPA/ EPS

6.4.6 Activity Planning

The PIU will coordinate the planning, implementation and reporting of all project activities. Project activities in the 3-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 consultant categories of the project is attached as Annex 6.2. The action plan for each contract needs to 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/FeSMMIPA 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-AF

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-AF 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-AF 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-AF 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.

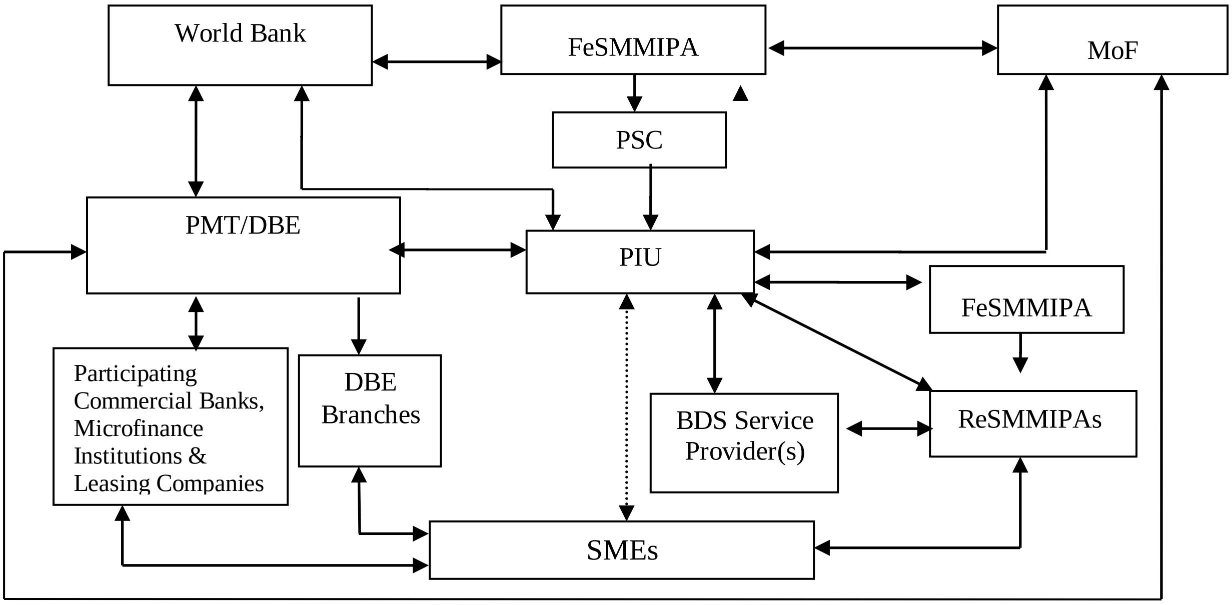
ii. *Implementing agency reports*. In order to leverage pre-existing structures and institutions, the PMT will be responsible for establishing, managing and reporting the M&E system for component 1. The PIU within the FeSMMIPA will be responsible for establishing and managing the M&E system for components 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-AF 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 the 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-AF among project implementers, beneficiaries, and other stakeholders is shown in figure 6.1 below.

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



Legend

Direct relationship ⟶

Work relationship ⟷

Indirect relationship ....

6.5.2 SMEFP-AF Reports

The SMEFP-AF 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 Promotion 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, MoF and the World Bank.

The integrated M&E system in FeSMMIPA 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 MoF. Similarly, quarterly financial reports (Interim Financial Report) and annual audit reports are submitted to the World Bank, Project Steering Committee and MoF.

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-AF

Whom the report is submitted to: / Who prepares the report	PMT/ DBE	PIU	PSC	World Bank	MoF
DBE branches, participating commercial banks, MFIs and leasing companies	Monthly Loan Report				
ReSMMIPA		Monthly progress report			
BDS Provider(s)		BDS report when the service rendered			
PMT/DBE		Monthly SMEFP-AF Loan Report		• Monthly SMEFP-AF Loan Report • Quarterly IFR	
PIU		Monthly Project Progress Report for internal management use	• Quarterly progress report; • Biannual/ Annual progress report; • Annual financial audit	• Quarterly progress report; • Biannual/Annual progress report; • Annual financial audit	• Quarterly progress report; • Quarterly IFR • Biannual/Annual progress report • Annual financial audit

VII ANNEXES

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-AF.

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 (SPNs) 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-AF
- 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 by 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-AF 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.

6. BDS Specialist

Objective of the assignment

The BDS Specialist will closely work with Non-Financial Services Coordinator and will team up with other PIU staff for the implementation of Component 3: Business Development Services to SMEs. He/she is responsible for planning, implementation and follow-up of project activities under Component 3.

Duties and Responsibilities

Specific tasks of the BDS Specialist will include, but not necessarily be limited to, the following:

- 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 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 Non-Financial Services Coordinator and 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;
- 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 one year, including a 3-month period of probation. The services of the BDS Specialist may be terminated at the end of the probation period if his/her performance is less than satisfactory. At the end of one year, the assignment may be extended annually, depending on satisfactory performance.

Reporting Arrangements

BDS Specialist will technically work under supervision of Non-Financial Services Coordinator and reports to PIU Coordinator. He/she will also manage the implementation of the project activities closely with the implementing agency staff, the World Bank Task Team and the World Bank Ethiopia Country Office.

7. Communication and Outreach Specialist

Objective of the assignment

The Communication specialist will be responsible for ensuring all stakeholders are well informed and meaningfully participate in the implementation and to contribute to the success of the SMEFP-AF. The communication specialist is expected in implementation trough outreach activities focused on awareness building and better understanding as well as acceptance of project ideas among the project beneficiaries and relevant stakeholders.

This will be achieved through information sharing, workshops, trainings to federal and regional implementers and will include preparation of strategic document and publication of materials aimed at raising entrepreneurship awareness creation.

Specific Duties and Responsibilities

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

- Prepare Communication, outreach and Advocacy strategy that guides the specific activities to be under taken in the area of communication and outreach, specify the actions to be taken to achieve the aims of the project, the ways and means of communicating the beneficiaries and the public at large.
- Build awareness and understanding of SMEFP-AF: among the intended beneficiaries and relevant stakeholders, ensure that the objectives of the projects are clearly understood.
- Ensure transparency and access to information: shall clarify any misunderstanding and create a favorable condition for equal opportunities for SMEFP-AF beneficiaries and potential beneficiaries.
- Materials Development: prepare communication and outreach strategy document, calendar events, periodical information kits for potential beneficiaries, implementers and general public, news release and documentary showcasing on the SMEFP-AF, post up-to-date info on website and prepare any materials deemed to be vital.
- Awareness creation workshops and interactive Meetings: Shall be responsible for organizing periodic meetings, use different forums organized by Business Associations to ensure that information on SMEFP-AF reaches as many SMEs as possible.
- Proactive Media Relations: shall be responsible for regular media outreach and cultivating a solid relationship with journalists, giving them adequate information access.

- Produce documentary films based on success stories/best Experience of the beneficiary.
- Write scripts which broadcast by print and electronic Medias.
- Additional tasks: he/she shall perform additional SMEFP-AF tasks deemed to be covered by his/her specialty and competence as instructed by immediate supervisor.
- Deliverables and reporting requirements: prepare periodic reports or summaries of written submissions, documents from different stakeholders to suit SME enterprises and for stakeholder's consumption.
- Support in preparing meetings and workshops, including preparation of agenda, meeting minutes and other facilities.
- Manage/create project website and handle client grievance through the short code.
- Register client compliant on a log book and report periodically.
- Perform other related duties as may be required for the project activities.

Required Outputs/Written Reports

Monthly progress reports as required and quarterly reports will highlight activities completed based on above duties.

Qualifications and Experience

- Higher education (BA or above) in the field of Communication/Public relations or fields of studies related to outreach and advocacy tasks;
- At least five years of work for MA and 10 years and above for BA in international projects in the field of communication and outreach with experiences in the preparation of communication, outreach and advocacy strategy, extensive experience in public relations and on participatory communication, communication planning, social mobilization and impact evaluation of communication interventions, working in the media, research documentation and having a good report writing skill.
- Proven high integrity and accountability in all aspects of project advocacy and outreach;
- 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 two years, including a 3-month period of probation. The services of the Communication and Outreach Specialist may be terminated at the end of the probation period, if his/her performance is less than satisfactory. The performance of the Communication and Outreach 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 Communication and Outreach Specialist is found to be unsatisfactory.

Reporting Arrangements

The Communication and Outreach 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.

8. Environmental and Social Safeguards Specialist

Objective of the assignment

The Environmental and Social Safeguards Specialist will closely work with Monitoring and Evaluation Specialist of the project and team up with Environmental and Social Safeguards staff at Project Management Team of Development Bank of Ethiopia (DBE) and the World Bank. He/she is responsible for planning, implementation and reporting of the environmental and social safeguards of SMEFP-AF clients who received the project financing and BDS services.

Duties and Responsibilities

Specific tasks of the Environmental and Social Safeguards Specialist will include, but not necessarily be limited to, the following:

- Work with PIU Coordinator and M&E Specialist, collaborate with environmental and social safeguards team of the DBE and the World Bank in developing action plan for environmental and social safeguards supervision to SMEs and ensure that the work plan activities are implemented on schedule;
- Establish close contact with regional SME Development Agency offices, DBE and other participating financial institutions; coordinate and participate in irregular supervision mission;
- ensure the Project complies with the country's legal and the World Bank's environmental and social safeguards policies and requirements;
- Develop environmental and social safeguards checklist and screening forms; and establish a monitoring and evaluation system for the implementation of the environmental and social management framework of the project.
- Provide awareness creation training to BDS providers' staff and SMEs in environmental and social safeguards; facilitate communication among various project stakeholders to promote socially and environmentally sound project implementation;
- Undertake site visits to SMEs in order to assess how environmental and social screening and mitigation measures are applied in minimizing impacts.
- Ensure that environmental protection authority's guidelines are adhered to;
- Ensure that project specific grievance mechanism is in place to address environmental and social safeguards;
- Compile quarterly, biannual and annual reports on safeguards related issues as part of the M&E report;
- 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 environmental sciences, environmental engineering, environmental studies, Resource/Environmental Economics, social development or equivalent and experience in implementation of ESMF;

- Overall work experience not less than 5 years with specific experience in implementing ESMF not less than 2 years;
- 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 one year, including a 3-month period of probation. The services of the Environmental and Social Safeguards Specialist may be terminated at the end of the probation period if his/her performance is less than satisfactory. At the end of one year, the assignment may be extended annually, depending on satisfactory performance.

Reporting Arrangements

Environmental and Social Safeguards Specialist will report to PIU Coordinator. He/she will also manage the implementation of the project activities closely with the implementing agency staff, environmental and social safeguards team of the World Bank and Development Bank of Ethiopia.

Annex 2.2: Tender Committee Guidelines

The Tender Committee shall be established by an Order of the Minister or State Minister of MoI and will be effective from the date of the Order issue.

A. Procurement of Goods, Works and Non-Consulting Services.

1. The functions of the Tender Committee are following:
    - (a) receive and register Bids and Quotations through the PIU;
    - (b) open the bids and quotations at the deadline specified in the Bidding Documents or Invitation to Quote;
    - (c) prepare records of bid opening and promptly send all appropriate documents through the PIU to the Bank;
    - (d) evaluate bids and quotations, with technical members added to the committee on ad hoc basis, in accordance with the procedures and criteria set out in the Bidding Documents or Invitation to Quote;
    - (e) prepare evaluation reports, with technical members added to the committee on ad hoc basis;
    - (f) provide with recommendations to determine the first ranked Bidder; or take decision on the results of the procurement process compliant with the provisions of the Financing Agreement and Project Implementation Manual;
    - (g) keep the records of Tender Committee meetings and have them signed by the Head of the Tender Committee and the members.
2. Two technical members are added, in written order by Director of Domestic Investors Transformation Directorate of MoI, to the Tender Committee for each tender on an ad hoc basis for about five days before the deadline for bids/ quotations submission.
3. No member of the Tender Committee has right to sign the contract with an appropriate bidder.
4. The Members shall attend any scheduled meeting of the Tender Committee. If any member did not attend the meeting, it should be fixed in the records, indicating reasons of absence. The quorum of the Tender Committee occurs when at least three persons including Chairperson and Secretary attend the meeting.
5. If the competence of the Tender Committee is not enough and in-depth expertise is required to complete the evaluation, additional qualified experts (“the Expert’), including those recruited for preparation of the technical specifications, may be invited to carry out technical expertise of bids and proposals.
6. The Members and Experts are prohibited from participating in the separate meetings, lunches, entertainment, or any other direct contact with Bidders once being appointed as the Tender Committee’ members and technical experts.
7. The Members and Experts must have no personal interest in which Bidder is considered.
8. Any of Members/ Experts cannot participate or observe performance of functions assigned to the Tender Committee if he/she (i) has a personal interest in; or (ii) has marital, direct birth, adoption, guardianship or trusteeship with; or (iii) was, for the last two years, an employee or official of, any individual or legal entity (its legal representative and officials) that has submitted a Bid or Quotations.
9. Each member or any Experts, who may be invited for independent technical review of bids and proposals, if he/she has decided to attend Tender Committee meeting(s), will be requested to attest that he or she has no personal interest in the Bidder(s) being evaluated.

10. Members and experts must have a professional interest that the recommendations of the Tender Committee could lead to the selection of given Supplier(s) or Contractor(s) and that Supplier(s) or Contractor(s) can and will provide goods, works or services under project in an acceptable manner.
11. The members shall:
    (a) understand the objective of the procurement;
    (b) be familiar with requirements and specifications contained in the Bidding Documents;
    (c) understand criteria and methods of evaluation;
    (d) have an understanding of the evaluation process and the rules associated with the evaluation process to the extent that the recommendations made by the Tender Committee are legally supportable.
12. The Tender Committee will receive the list of inquires of the bidders (if any). Contacts with Bidders shall be conducted through the PIU in writing as well as the responses to bidder/consultants.
13. During the process of evaluation and while meetings are in session, the Tender Committee shall maintain confidentiality. No member, expert shall transmit, communicate, or otherwise convey preliminary conclusions or results of what was bid or offer by the Bidders, or that a given Bidder will be selected. All internal workings of the Tender Committee shall be kept confidential until the committee has completed its work and its report, and the selected Bidder has been officially announced by the PIU. Therefore, members and experts shall not give individual opinions to Bidders, comment on committee deliberations to people outside of the process, or share information provided by one Bidder with others.
14. Each member will initiate, conduct, and complete an individual evaluation of each Bidder. The PIU shall provide access for Members to Bids or Quotations at the secure premises to avoid unauthorized access to Bids or Quotations of people not involved in the evaluation process. The evaluations will be summarized and averaged for the committee as a whole in manner described in the Bidding Documents, Invitation to Quote and other documents regulating procurement under the project.
15. Members may arrive at different conclusions. The committee will discuss any individual differences as best as possible, which may include requests for additional material. The resulting discussions or materials may bring consensus, or each member may retain his or her independent findings, and his or her rating will be taken into account in preparation of evaluation report.
16. Should these methods produce an unacceptable conclusion to any member, that member may, at the member's discretion, take exception to the final report. Where such differences are matters of fact (mathematical in nature, or facts of evidence) and cannot be resolved by consensus, the committee chairperson shall rule. A record of evaluation shall be kept in the event of such rulings by the Chairperson of the Tender Committee. This event should be reflected in the evaluation report.
17. The evaluation report prepared by the Tender Evaluation Committee, that includes members of technical committee, will be submitted by PIU to the Bank for prior review and no-objection.
18. In case of objections of the Bank to the evaluation report, the Tender Committee shall consider Bank's comments and make appropriate corrections.
19. The PIU will award a contract to a successful bidder/contractor on behalf of the beneficiary based on the recommendations of the Tender Committee; endorsed by Director of Domestic Investors Transformation Directorate and Director of Finance and Supplies Directorate, and approval of the World Bank. Contracts are signed by PIU Coordinator.
20. If the Contract with the successful Bidder has not been signed, the PIU after obtaining Bank's no-objection, may take decision on contract award to the next ranked Bidder.

B. Selection of Consultants

1. The functions of the Tender Committee are:
   (a) receive and register Technical and Financial Proposals through PIU as appropriate;
   (b) open technical proposals immediately after the deadline for proposal submission and keep the financial proposals unopened until completion of the technical evaluation;
   (c) prepare records of technical proposal opening;
   (d) evaluate technical proposals, with technical members added to the committee on ad hoc basis, in accordance with the procedures and criteria set out in the Request for Proposals and prepare technical evaluation reports;
   (e) open financial proposals, prepare records of financial proposals opening and promptly send them, through the PIU the copy to the Bank and consultants whose financial proposals have been opened;
   (f) prepare combined evaluation reports with the assistance of procurement specialists of the PIU;
   (g) make recommendations to determine the successful Consultants or take other decision on the results of the procurement process compliant with the provisions of the Financing Agreement and Project Implementation Manual;
   (h) keep the records of Tender Committee meetings and have them signed by the Chairperson of the Tender Committee and members.
2. Two technical members are added, in written order by Director of Domestic Investors Transformation Directorate of MoI, to the Tender Committee for each tender on an ad hoc basis for about five days before the deadline for submission of proposals.
3. No member of the Tender Committee has right to sign the contract with an appropriate consultant.
4. The Members shall attend any scheduled meeting of the Tender Committee. If any member did not attend the meeting, it should be fixed in the records, indicating reasons of absence. The quorum of the Tender Committee occurs when at least three persons including Chairperson and Secretary attend the meeting.
5. If competence of the Tender Committee is not enough and in-depth expertise is required to complete the evaluation, additional qualified experts (“the Expert’), including those recruited for preparation of the ToR, may be invited to carry out technical review of proposals.
6. The Members and Experts are prohibited from participating in individual meetings, lunch, entertainment, or any other direct contact with Consultants once appointed to the Tender Committee.
7. Members, Experts and the Observers must have no personal interest in which Consultant is considered.
8. Any Member or any Expert or the observer cannot participate or observe performance of functions assigned to the Tender Committee if he/she (i) has a personal interest in; or (ii) has marital, direct birth, adoption, guardianship or trusteeship with; or (iii) was, for the last two years, an employee or official of, any individual or legal entity (its legal representative and officials) that has submitted a Proposal.
9. Each member, any Experts, who may be invited for independent technical review of bids and proposals, if he/she has decided to attend Tender Committee meeting(s), will be requested to attest that he or she has no personal interest in the Consultant(s) being evaluated;
10. Members and experts must have a professional interest that the recommendations of the Tender Committee could lead to the selection of given Consultant(s) and that Consultant(s) can and will provide consulting services under project.

11. The members shall:
    (a) understand the objective of the consultant selection;
    (b) be familiar with requirements and ToR contained in the Request for Proposals;
    (c) understand criteria and methods of evaluation;
    (d) have an understanding of the evaluation process and the rules associated with the evaluation process to the extent that the recommendations made by the Tender Committee are legally supportable.
12. Items of question will be brought before the tender committee. Contacts with Consultants to clarify any aspects of proposals during evaluation process are not allowed.
13. During the process of evaluation and while meetings are in session, the Tender Committee shall maintain confidentiality. No member, expert shall transmit, communicate, or otherwise convey preliminary conclusions or results of what was proposal by the Consultants, or that a given Consultant will be selected. All internal workings of the Tender Committee shall be kept confidential until the committee has completed its work and its report, and the selected Consultant has been officially announced by the PIU. Therefore, Members, experts and an independent observer shall not give individual opinions to Consultants, comment on committee deliberations to people outside of the process, or share information provided by one Consultant with others.
14. Each member will initiate, conduct, and complete an individual evaluation of each Consultant. The PIU shall provide access for Members to Proposals at the secure premises to avoid unauthorized access to Proposals of people not involved in the evaluation process. The evaluations will be summarized and averaged for the committee as a whole in manner described in the Request for Proposals and other documents regulating procurement under the project.
15. Members may not always arrive at the same conclusions. The committee will discuss any individual differences as best as possible, which may include requests for additional material. The resulting discussions or materials may bring consensus, or each member may retain his or her independent findings, and his or her rating will be averaged with the other evaluations.
16. Should these methods produce an unacceptable conclusion to any member, that member may, at the member's discretion, take exception to the final report. Where such differences are matters of fact (mathematical in nature, or facts of evidence) and cannot be resolved by consensus, the committee chairperson shall rule. A record of evaluation shall be kept in the event of such rulings by the Chairperson of the Tender Committee. This event should be reflected in the evaluation report.
17. The technical and combined evaluation report prepared by the Tender Evaluation Committee will be submitted by PIU to the Bank for prior review and no-objection.
18. In case of objections of the Bank to the evaluation reports, the Tender Committee shall consider Bank's comments and make appropriate corrections.
19. The PIU will award a contract to a successful consultant on behalf of the beneficiary based on the recommendations of the Tender Committee; endorsed by Director of Domestic Investors Transformation Directorate and Director of Finance and Supplies Directorate, and approval of the World Bank. Contracts are signed by PIU Coordinator.
20. If the Contract with the successful Consultant has not been signed, the PIU after obtaining Bank's no-objection, may take decision on contract award to the next ranked Consultant.

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 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 product for SMEs.

14. Participating CGFCs 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.

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>=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 criticalhabitats[2] 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 labor[4] 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: Sample Credit Facility Agreement between DBE and PFIs

A) CFA between DBE and Participating Commercial Banks

Small and Medium Enterprises Finance Project – Finance Project (SMEFP-AF)
(IDA Credit No. 6864-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 139,000,000 (USD $ 200 million equivalent) from the International Development Association (IDA) through a Financing Agreement signed on April 23, 2021 for the purpose of financing Small and Medium Enterprises Finance Project – Additional Finance, which objective is to increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic.

Whereas~~,~~ Lender has entered into (i) a Subsidiary Financing Agreement with the Government of Ethiopia, through the Ministry of Finance, 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-AF: 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 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-AF (SMECF); has applied for a loan of Birr _____________hereinafter called the “Loan[27]”, 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:

Article I

27 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.

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) “ESMS” means Environmental and Social Management System

f) “Existing Contract” refers to credit facility agreement entered between the Lender and the Borrower prior to December 2018

g) “FM” means Financial Management

h) “IDA” means International Development Association

i) “IFRs” means Interim Financial Reports

j) “Lender” means Development Bank of Ethiopia

k) “MIS” means Management Information Systems

l) “MoF” means Ministry of Finance

m) “NBE” means the National Bank of Ethiopia

n) “Operations Manual” means manual that guides project implementation

o) “PCB” means Participating Commercial Bank

p) “PMT” means the Project Management Team within Lender

q) “SLA” means Sub-loan Agreement

r) “SMECF” means the Small and Medium Enterprise Credit Facility

s) “SMECFA” means Small and Medium Enterprises Credit Facility Agreement

t) “SMEFP-AF” means Small and Medium Enterprises Finance Project – Additional Finance

u) “TA” means Technical Assistance

v) “WB” means the World Bank/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-AF.

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>=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.

The loan shall be disbursed from the Borrower's loan account on advance basis and shall be released in two installments as follows;

1st Disbursement of Birr…………. after fulfillment of all the conditions and signing of this contract

2nd Disbursement of Birr …. upon presentation of evidence that the Borrower has lent at least 80% of the previous trench to SMEs

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 A: 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 at least 50% of its advance release within 6 months of receipt, or if there are breaches in complying with the terms of the credit facility after draw down, the Lender would be free to reallocate the remaining amount to another Borrower and claim the unutilized portion from the 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 4 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 3), 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 5. Each item shall be disclosed with equal prominence.

If there is any change to any of the items in Appendix 5 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 5 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-AF 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 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 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 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-AF borrower database maintained at DBE 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 MoF 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-AF.

<u>Section 6.11 Disbursement and Disbursement Schedule:</u>

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.

e) In order to have access to the Credit Facility, the Borrower will be required to enter into Technical Cooperation Agreements (TCA) with Lender. 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.

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 beneficiaries in order to trigger subsequent disbursements 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 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.

Section6.14 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 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.

<u>Section 6.15 Representations:</u>

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.

<u>Section 6.16 Bank Account:</u>

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.

<u>Section 6.17 Visits, Rights of Access and Investigations:</u>

The Borrower shall:

(i) allow persons designated by the financer:

   (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;

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 form 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 3 (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

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 6.21 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 6.22 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, 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 the financer:

(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;

.

(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.

<u>Section 6.23</u>

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**" meansthe 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

"**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.

"**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 aneligible beneficiary/SMEdocumenting 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.

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	Borrower
Addis Ababa	Addis Ababa
Ethiopia	Ethiopia
P.O.Box 1900	P.O.BOX: …………………………….
Fax:- 0115150462	Fax: …………………………………..
E-mail:- Lender_ecg@ethionet.et	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 (Commercial) Bank
Name ______________________	Name ____________________
Title _______________________	Title ____________________
Signature ___________________	Signature ________________
Date_______________________	Date ____________________

Witness

Name	***Signature***
1.______________________________	____________________
2.______________________________	_____________________
3.______________________________	____________________
4.______________________________	____________________

Appendix 1: Monitoring and Reporting Formats

Appendix1.1: 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													

Sr . no	***No. of owners***		**Educational Level (Primary, Secondary/ tertiary)**	***No of years of experience on the business***	***Year of business Start up***	**Sector of the business**	***Sub - sector of the business***	***Type of ownership (Sole/ PLC, other)***	***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 Loan requested	Amount of loan approved	Amount of Loan disbursed	Date of disbursement	*Loan tenure*	*Collateral type*	*Value of collateral pledged*	*New/ existing customer*	*Previous loan amount*	*Projected number of employees after the loan*	*Projected annual earning in Birr after the loan*
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: Loan Replenishment Request

(Name of the Financial Institution)

S/N	***Name of the enterprise***	***TIN number of sub-borrower***	***Business sector***	***Amount of loan requested (in Birr)***	***Amount of loan approved (in Birr)***
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
Total					

Name:___________________________________ Title: ___________________________________

Signature: ________________________________ Date: ___________________________________

Appendix 3: 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 criticalhabitats[2] 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 labor[4] 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 4: 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 5: 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	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: 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 – Additional Finance (SMEFP-AF)
(IDA Credit No. 6864-ET)

Small and Medium Enterprise Credit Facility

Small and Medium Enterprise Credit Facility Agreement (SMECFA)

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 139,000,000 (USD $ 200 million equivalent) from the International Development Association (IDA) through a Financing Agreement signed on April 23, 2021 for the purpose of financing Small and Medium Enterprises Finance Project – Additional Finance, which objective is to increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic.

Whereas~~,~~ Lender has entered into (i) a Subsidiary Financing Agreement with the Government of Ethiopia, through the Ministry of Finance, 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-AF: 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 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-AF (SMECF); has applied for a loan of Birr _____________hereinafter called the "Loan[28]", 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:

Article I

---

28 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.

Section 1.1 - Definitions:

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

w) "AWPB" means the annual work plan and budget

x) "AML/CFT" means Anti Money Laundering and Countering the Financing of Terrorism

y) Borrower – shall mean Participating (Commercial)Bank

z) DBE" means Development Bank of Ethiopia

aa) "ESMS" means Environmental and Social Management System

bb) "Existing Contract" refers to credit facility agreement entered between the Lender and the Borrower prior to December 2018

cc) "FM" means Financial Management

dd) "IDA" means International Development Association

ee) "IFRs" means Interim Financial Reports

ff) "Lender" means Development Bank of Ethiopia

gg) "MIS" means Management Information Systems

hh) "MoF" means Ministry of Finance

ii) "NBE" means the National Bank of Ethiopia

jj) "Operations Manual" means manual that guides project implementation

kk) "PMFI" means Participating Microfinance Institution

ll) "PMT" means the Project Management Team within Lender

mm) "SLA" means Sub-loan Agreement

nn) "SMECF" means the Small and Medium Enterprise Credit Facility

oo) "SMECFA" means Small and Medium Enterprises Credit Facility Agreement

pp) "SMEFP-AF" means Small and Medium Enterprises Finance Project – Additional Finance

qq) "TA" means Technical Assistance

rr) "WB" means the World Bank/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-AF.

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>=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 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.

The loan shall be disbursed from the Borrower's loan account on advance basis and shall be released in two installments as follows;

1st Disbursement of Birr………….. after fulfillment of all the conditions and signing of this contract

2nd Disbursement of Birr ….. upon presentation of evidence that the Borrower has lent at least 80% of the previous trench to SMEs

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 A: 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		-

<u>Section 4.5 Loan repayment acceleration:</u>

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.

<u>Section 4.6 Penalty Interest:</u>

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.

<u>Section 4.7 Funds reallocation</u>

Should a Borrower prove unable to on-lend at least 50% of its advance release within 6 months of receipt, or if there are breaches in complying with the terms of the credit facility after draw down, the Lender would be free to reallocate the remaining amount to another Borrower and claim the unutilized portion from the Borrower.

<u>Section 4.8 Revolving Fund</u>

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:

h. On an individual basis to eligible beneficiaries in line with the recommendations provided under the mandatory TA.

i. 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.

j. Sub-loans will be denominated in Ethiopian Birr (ETB).

k. 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.

l. 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 4 of this agreement.

m. 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.

n. 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:

e. 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.

f. The Borrower will provide an annual environmental and social performance report to the Lender within 90 days after the end of each calendar year.

g. The Borrower will manage the working conditions of their workforce in accordance with the Borrower's ESMS.

h. 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.

<u>Section 5.10 Compliance of Sub-Loans with Applicable Environmental and Social Requirements:</u>

c. 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 3), and Borrower's ESMS which must be acceptable to the Lender.

d. 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

<u>Section 5.11 Minimum consumer protection disclosure requirements:</u>

The Borrower shall disclose prominently in each SLA the items in the table in Appendix 5. Each item shall be disclosed with equal prominence.

If there is any change to any of the items in Appendix 5 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 5 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

<u>Section 6.1 Due diligence and governance and remedy:</u>

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.

e) The Borrower is required to submit a monthly disbursement report to Lender as per Appendix 1.1

f) 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)

g) 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-AF financing.

h) 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 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

e. 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.

f. Allow the PMT of Lender 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.

g. Allow DBE 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-AF borrower database maintained at DBE IDA or any other organization appointed for this purpose which will be communicated to the borrower.

h. 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 MoF to inspect any Sub project, its operation and any relevant records and documents.

Section 6.10 Reporting by beneficiaries:

c) 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.

d) No additional accounting conditions will be requested to final beneficiaries of the SMEFP-AF.

Section 6.11 Disbursement and Disbursement Schedule:

1) Disbursement

f) The institution should clear all arrears balance, if any.

g) The Borrower should present renewed license from NBE for the current year within 3 months after issue.

h) 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.

i) 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.

j) In order to have access to the Credit Facility, the Borrower will be required to enter into Technical Cooperation Agreements (TCA) with Lender. 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.

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:

f) 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 beneficiaries in order to trigger subsequent disbursements of the line of credit.

g) The loan will be utilized for the intended purposes only.
h) 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.
i) The Borrower will maintain sound and acceptable financial information and be able to exhibit unqualified externally audited accounts.
j) The Borrower will cooperate with the Lender Project Management Team (PMT) for any inspection and follow up activities.

<u>Section 6.12 AML/CET compliance program:</u>

Borrowers should have AML/CET compliance program 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.

<u>Section 6.13 Compliance with laws:</u>
The Borrower shall comply in all respects with all laws and regulations to which it is subject.

<u>Section6.14 Integrity:</u>

(a) **Prohibited Conduct**:

(iii) 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.

(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 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 the financer:

  (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;

Section 6.18 Due diligence procedures and technical assistance:

The Borrower shall:

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

4. Implement the recommendations form 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:

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

6. By way of sub-Loans not finance any activity listed in Appendix 3 (List of Excluded Activities) to the Operations Manual;

7. 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

8. 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

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 6.21 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 6.22 Sub-Loan Agreements

Each Final Beneficiary shall:

(j) **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;

(k) **Purpose:** use the Sub-Loan exclusively for the purpose of carrying out the Sub-project;

(l) **Maintenance:** maintain, repair, overhaul and renew all property forming part of the Sub-project as required to keep it in good working order and

(m) **Insurance:** appropriately insure all works and assets forming part of the Sub-project in accordance with the most comprehensive relevant industry practice;

(n) **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;

(o) **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.

(p) **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, 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;

(q) ***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.

(r) ***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 the financer:

(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;

.

(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.

<u>Section 6.23</u>

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**" meansthe 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

"**Prohibited Conduct**" means any Financing of Terrorism, Money Laundering or Prohibited Practice.

"**Prohibited Practice**" means any:

(f) 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;
(g) 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;
(h) 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;
(i) 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
(j) 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.

"**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 aneligible beneficiary/SMEdocumenting 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.

c) When the Borrower defaults under sub sections 4.2, 4.3, 4.4 and 4.7 of Article IV.

d) 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.

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	Borrower
Addis Ababa	Addis Ababa
Ethiopia	Ethiopia
P.O.Box 1900	P.O.BOX: …………………………….
Fax:- 0115150462	Fax: …………………………………..
E-mail:- Lender_ecg@ethionet.et	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 (Commercial) Bank
Name ______________________	Name ____________________
Title _______________________	Title ____________________
Signature ___________________	Signature ________________
Date_______________________	Date ____________________

Witness

Name	***Signature***
1. ______________________________	____________________
2. ______________________________	_____________________
3. ______________________________	____________________
4. ______________________________	____________________

Appendix 1: Monitoring and Reporting Formats

Appendix1.1: 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													

Sr. no	*No. of owners*		**Educational Level (Primary, Secondary/ tertiary)**	*No of years of experience on the business*	*Year of business Start up*	**Sector of the business**	*Sub - sector of the business*	*Type of ownership (Sole/ PLC, other)*	*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 Loan requested**	**Amount of loan approved**	**Amount of Loan disbursed**	**Date of disbursement**	***Loan tenure***	***Collateral type***	***Value of collateral pledged***	***New/ existing customer***	***Previous loan amount***	***Projected number of employees after the loan***	***Projected annual earning in Birr after the loan***
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: Loan Replenishment Request

(Name of the Financial Institution)

S/N	*Name of the enterprise*	*TIN number of sub-borrower*	*Business sector*	*Amount of loan requested (in Birr)*	*Amount of loan approved (in Birr)*
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
Total					

Name:_________________________________ Title: _________________________________

Signature: _______________________________ Date: _________________________________

Appendix 3: List of Excluded Activities

21. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.

22. Production or trade in weapons or munitions.[1]

23. Gambling, casinos and equivalent enterprises.[1]

24. Production or trade in alcoholic beverages (excluding beer, Tej and wine). [1]

25. Mining/quarrying activities and agricultural activities.

26. Trade in wildlife or wildlife products regulated under Convention on International Trade in Endangered Species (CITES).

27. 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.

28. Production or trade in or use of unbounded asbestos fibers.

29. Any activities involving significant degradation or conversion of criticalhabitats[2] and/or any activities in legally protected areas.

30. Activities damaging to national monuments and other critical cultural heritage.[3]

31. Drift net fishing in the marine environment using nets in excess of 2.5 km in length, electric shocks, or explosive materials.

32. Production or trade in wood or other forestry products other than from sustainably managed forests.[6]

33. Production or trade in pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (Borrower's) subject to international phase outs or bans.

34. Production or activities involving harmful or exploitative forms of forced labor[4] harmful child labor.[5]

35. 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.).

36. 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.

37. Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement.[7]

38. 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.

39. Activities targeting tobacco manufacturing, processing, or specialist tobacco distribution, and activities facilitating the use of tobacco (e.g. "smoking halls").[1]

40. 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 4: 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 5: 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	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: 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 – Additional Finance (SMEFP-AF)
(IDA Credit No. 6864-ET)

Small and Medium Enterprise Credit Facility

Small and Medium Enterprise Credit Facility Agreement (SMECFA)

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 139,000,000 (USD $ 200 million equivalent) from the International Development Association (IDA) through a Financing Agreement signed on April 23, 2021 for the purpose of financing Small and Medium Enterprises Finance Project – Additional Finance, which objective is to increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic.

Whereas~~,~~ Lender has entered into (i) a Subsidiary Financing Agreement with the Government of Ethiopia, through the Ministry of Finance, 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-AF: 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 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-AF (SMECF); has applied for a loan of Birr _____________hereinafter called the "Loan[29]", 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:

---

29 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:

ss) "AWPB" means the annual work plan and budget

tt) "AML/CFT" means Anti Money Laundering and Countering the Financing of Terrorism

uu) Borrower – shall mean Participating (Commercial)Bank

vv) DBE" means Development Bank of Ethiopia

ww) "ESMS" means Environmental and Social Management System

xx) "Existing Contract" refers to credit facility agreement entered between the Lender and the Borrower prior to December 2018

yy) "FM" means Financial Management

zz) "IDA" means International Development Association

aaa) "IFRs" means Interim Financial Reports

bbb) "Lender" means Development Bank of Ethiopia

ccc) "MIS" means Management Information Systems

ddd) "MoF" means Ministry of Finance

eee) "NBE" means the National Bank of Ethiopia

fff) "Operations Manual" means manual that guides project implementation

ggg) "PCGFC" means Participating Capital Goods Finance Company

hhh) "PMT" means the Project Management Team within Lender

iii) "SLA" means Sub-loan Agreement

jjj) "SMECF" means the Small and Medium Enterprise Credit Facility

kkk) "SMECFA" means Small and Medium Enterprises Credit Facility Agreement

lll) "SMEFP-AF" means Small and Medium Enterprises Finance Project – Additional Finance mmm) "TA" means Technical Assistance

nnn) "WB" means the World Bank/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

e) 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.

f) 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-AF.

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>=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 PCGFC 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.

The loan shall be disbursed from the Borrower's loan account on advance basis and shall be released in two installments as follows;

1st Disbursement of Birr………….. after fulfillment of all the conditions and signing of this contract

2nd Disbursement of Birr ….. upon presentation of evidence that the Borrower has lent at least 80% of the previous trench to SMEs

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 A: 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 at least 50% of its advance release within 6 months of receipt, or if there are breaches in complying with the terms of the credit facility after draw down, the Lender would be free to reallocate the remaining amount to another Borrower and claim the unutilized portion from the 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.

<u>Article V</u>

Borrower credit policies

<u>Section 5.1 Sub-Loan regulations:</u>

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

<u>Section 5.2 Sub-Loan delivery system:</u>

o. On an individual basis to eligible beneficiaries in line with the recommendations provided under the mandatory TA.

p. 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.

q. Sub-loans will be denominated in Ethiopian Birr (ETB).

r. 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.

s. 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 4 of this agreement.

t. 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.

u. The Borrower will bear the full risk of the sub-loans.

<u>Section 5.3 Interest rate:</u>

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

<u>Section 5.4 Sub-Loan maturities:</u>

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:

i. 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.

j. The Borrower will provide an annual environmental and social performance report to the Lender within 90 days after the end of each calendar year.

k. The Borrower will manage the working conditions of their workforce in accordance with the Borrower's ESMS.

l. 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:

e. 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 3), and Borrower's ESMS which must be acceptable to the Lender.

f. 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 5. Each item shall be disclosed with equal prominence.

If there is any change to any of the items in Appendix 5 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 5 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.

i) The Borrower is required to submit a monthly disbursement report to Lender as per Appendix 1.1

j) 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)

k) 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-AF financing.

l) 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 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

i. 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.

j. Allow the PMT of Lender 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.

k. Allow DBE 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-AF borrower database maintained at DBE IDA or any other organization appointed for this purpose which will be communicated to the borrower.

l. 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 MoF to inspect any Sub project, its operation and any relevant records and documents.

Section 6.10 Reporting by beneficiaries:

e) 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.

f) No additional accounting conditions will be requested to final beneficiaries of the SMEFP-AF.

Section 6.11 Disbursement and Disbursement Schedule:

1) Disbursement

k) The institution should clear all arrears balance, if any.

l) The Borrower should present renewed license from NBE for the current year within 3 months after issue.

m) 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.

n) 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.

o) In order to have access to the Credit Facility, the Borrower will be required to enter into Technical Cooperation Agreements (TCA) with Lender. 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.

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:

k) 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 beneficiaries in order to trigger subsequent disbursements of the line of credit.

l)The loan will be utilized for the intended purposes only.

m) 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.

n) The Borrower will maintain sound and acceptable financial information and be able to exhibit unqualified externally audited accounts.

o) The Borrower will cooperate with the Lender Project Management Team (PMT) for any inspection and follow up activities.

<u>Section 6.12 AML/CET compliance program:</u>

Borrowers should have AML/CET compliance program 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.

<u>Section 6.13 Compliance with laws:</u>

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

<u>Section6.14 Integrity:</u>

(a) **Prohibited Conduct**:

(v) 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.

(d) **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 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 the financer:

(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;

Section 6.18 Due diligence procedures and technical assistance:

The Borrower shall:

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

6. Implement the recommendations form 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:

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

10. By way of sub-Loans not finance any activity listed in Appendix 3 (List of Excluded Activities) to the Operations Manual;

11. 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

12. 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

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 6.21 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 6.22 Sub-Loan Agreements

Each Final Beneficiary shall:

(s) **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;

(t) **Purpose:** use the Sub-Loan exclusively for the purpose of carrying out the Sub-project;

(u) **Maintenance:** maintain, repair, overhaul and renew all property forming part of the Sub-project as required to keep it in good working order and

(v) **Insurance:** appropriately insure all works and assets forming part of the Sub-project in accordance with the most comprehensive relevant industry practice;

(w) **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;

(x) **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.

(y) **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, the Lender or the Borrower shall reasonably request to investigate or terminate any alleged or suspected occurrence of any Prohibited Conduct.

(v) 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;

(z) ***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.

(aa) **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;

(vi) 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 the financer:

(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;

.

(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.

<u>Section 6.23</u>

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

"**Prohibited Conduct**" means any Financing of Terrorism, Money Laundering or Prohibited Practice.

"**Prohibited Practice**" means any:

(k) 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;
(l) 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;
(m) 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;
(n) 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
(o) 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.

"**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 aneligible beneficiary/SMEdocumenting 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.

e) When the Borrower defaults under sub sections 4.2, 4.3, 4.4 and 4.7 of Article IV.

f) 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.

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	Borrower
Addis Ababa	Addis Ababa
Ethiopia	Ethiopia
P.O.Box 1900	P.O.BOX: …………………………….
Fax:- 0115150462	Fax: …………………………………..
E-mail:- Lender_ecg@ethionet.et	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 (Commercial) Bank
Name ______________________	Name ____________________
Title _______________________	Title ____________________
Signature ___________________	Signature ________________
Date_______________________	Date ____________________

Witness

Name	***Signature***
1.______________________________	____________________
2.______________________________	_____________________
3.______________________________	____________________
4.______________________________	____________________

Appendix 1: Monitoring and Reporting Formats

Appendix1.1: 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													

Sr . no	*No. of owners*		**Educational Level (Primary, Secondary/ tertiary)**	*No of years of experience on the business*	*Year of business Start up*	**Sector of the business**	*Sub - sector of the business*	*Type of ownership (Sole/ PLC, other)*	*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 Loan requested	Amount of loan approved	Amount of Loan disbursed	Date of disbursement	*Loan tenure*	*Collateral type*	*Value of collateral pledged*	*New/ existing customer*	*Previous loan amount*	*Projected number of employees after the loan*	*Projected annual earning in Birr after the loan*
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: Loan Replenishment Request

(Name of the Financial Institution)

S/N	*Name of the enterprise*	*TIN number of sub-borrower*	*Business sector*	*Amount of loan requested (in Birr)*	*Amount of loan approved (in Birr)*
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
Total					

Name:______________________________________ Title: ______________________________________

Signature: ____________________________________ Date: ______________________________________

Appendix 3: List of Excluded Activities

41. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.

42. Production or trade in weapons or munitions.[1]

43. Gambling, casinos and equivalent enterprises.[1]

44. Production or trade in alcoholic beverages (excluding beer, Tej and wine). [1]

45. Mining/quarrying activities and agricultural activities.

46. Trade in wildlife or wildlife products regulated under Convention on International Trade in Endangered Species (CITES).

47. 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.

48. Production or trade in or use of unbounded asbestos fibers.

49. Any activities involving significant degradation or conversion of criticalhabitats[2] and/or any activities in legally protected areas.

50. Activities damaging to national monuments and other critical cultural heritage.[3]

51. Drift net fishing in the marine environment using nets in excess of 2.5 km in length, electric shocks, or explosive materials.

52. Production or trade in wood or other forestry products other than from sustainably managed forests.[6]

53. Production or trade in pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (Borrower's) subject to international phase outs or bans.

54. Production or activities involving harmful or exploitative forms of forced labor[4] harmful child labor.[5]

55. 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.).

56. 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.

57. Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement.[7]

58. 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.

59. Activities targeting tobacco manufacturing, processing, or specialist tobacco distribution, and activities facilitating the use of tobacco (e.g. "smoking halls").[1]

60. Activities involving live animals for experimental and scientific purposes.

<u>Footnotes</u>

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 4: 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 5: 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	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: 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 3.4: 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.

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

1. Address current high level of NPLs

a) Development of an NPL resolution strategy
b) Ongoing monthly monitoring of NPL resolution progress

2. **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

3. **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

4. **Implementation of treasury operations**

b) Implementation of measures detailed in the WEDP-supported institutional development plan as incorporated in the DBE *Redesigned Fund Management Process*

5. 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 3.5

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 acccount/donor

Supporting schedules

Particulars	Current Quarter (In ETB)/I	Cummulative Year to date (In ETB)/II	(To date) (In ETB Birr)/II(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)								
Component 1: Financial services to SMEs								
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 ……………………………..

	Birr	Birr
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 Enterprenuers 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	**IDA Credit MDTF**	**Total**
Bank and Account No.:		
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)		

6. Net advances to be accounted for (3+4+5)			
7. Closing balance at end of current reporting (as of (Designated Account Bank statement attached)			
7.1 Designated Account			
7.2 Project Bank accounts			
7.4 Total			
8. Expenditures reported for current reporting period (only expenditures paid from Designated Account & project bank account)			
9. Total Advances Accounted for (7+8)			
10. Applications submitted but not yet credited to DA			
11. Difference (if any) 6-9-10			

Approved by:

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________________________	Approved By _________
Signature ________________________	Signature __________
Date _____________________________	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________________________	Approved By _________
Signature ________________________	Signature __________
Date _____________________________	Date ____________

DEVELOPMENT BANK OF ETHIOPIA
SME financing project
STATEMENT OF CASH MOVMENT ________________PFI/CB/LC
THE PERIOD, FROM ....

	Birr
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	

Prepared By__________________________ Approved By _________________________
Signature __________________________ Signature __________________________
Date _______________________________ Date ______________________________

Annex 3.6

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 SMEFP-AF, selected PFIs and sample MSEs who have received loans from the project.

A subsidiary financing agreement has been signed with MoF on July 12, 2016 indicating the agreement between the MoF 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[30];;

(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;

---

[30] 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 3.7: Standard Form Guarantee Agreement between DBE and the FI

Drafting Notes:

1. Standard form agreement between an Accredited Financial Intermediary and the Development Bank of Ethiopia

2. The material terms substantially match those contained in the Guarantee Fund Mechanism section of this Operational Manual for the Credit Risk Guarantee Fund,
   i) The following documents form part of the Operational Manual but have been included as Annexes of the Standard Form legal agreement as they form part of the legal contract between the DBE and a participating FI. They are:

   ii) Guarantee Request Letter

   iii) Guarantee Issuance letter

   iv) Guarantee Claim payment demand

   v) Claim processing timetable

   vi) Reporting requirements and format

   vii) Intermediary reporting

   viii) Call for expression of interest

Whereas:

[FI NAME] has successfully qualified as an Accredited Intermediary

AND

the Parties wish to enter into an agreement whereby The Development Bank of Ethiopia ('DBE' or 'the Guarantor') will make available a Guarantee coverage 50% of principal losses on approved Intermediary Transactions originated and contracted by [FI NAME] during the Guarantee Effective Period

AND

The Parties henceforth wish to record the terms and conditions under which the Guarantee Coverage will be effected.

Article 1: Definitions

Accredited	An FI that has successfully qualified through an accreditation

Intermediary	assessment with the Guarantor after either responding to the Call for Interest or as a participant in the Letter of Credit Program and that has signed a Guarantee Agreement with the Guarantor for the receipt of guarantee on Intermediary Transactions
Availability Period	Unless otherwise specified in the Guarantee Agreement, the guarantee effective period will be the duration of the DRF
Borrower	The ultimate beneficiary of an Intermediary Transaction
Call for Interest	The Call for Interest in being an Accredited Financial Intermediary published by the Guarantor
Eligibility Criteria	The Eligibility Criteria for participating FI Institutions to be accredited and qualify to sign a Guarantee Agreement
Guarantee Agreement Effective Period	The dates between the signature date of this agreement and Termination Date or such earlier date as agreed between the Parties in writing
Guarantee Rate	The Guarantee Rate is the loss covered by the Guarantee for each loan and is limited to 50% of the final principal loss on each loan
Guarantor	The Development Bank of Ethiopia [REGISTRATION AND FULL NAME]
Intermediaries, Financial Intermediaries or FIs	Financial or credit institutions duly authorised to carry out lending or leasing activities according to the applicable legislation, established and operating in Ethiopia and with whom the Guarantor has signed a Guarantee Agreement
Loan Guarantee Issue Letter	Letter issued by the Guarantor in favour of an FI in respect of an individual loan, which confirms guarantee coverage on that loan in terms of the Agreement
Loan or Intermediary Transaction	A loan transaction between a Financial Intermediary and a Borrower which has been covered by the Guarantee in terms of the Agreement
Maximum Portfolio Volume	The maximum portfolio volume that may be guaranteed for the FI shall not exceed 50% of the program availability
Non-performing loan	Loans or advances whose credit quality has deteriorated such that full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advances are in question; or when principal and/ or interest is due and uncollected for 90 (ninety) calendar days or more beyond the scheduled payment date or maturity as contained in NBE Directive, SSB/43/008
Parties	The parties to this agreement being both of ‘the Development Bank of Ethiopia [ADDRESS] and the [FI name][ADDRESS]
Recoveries	Each and every amount, net of recovery and foreclosure costs (if any), recovered or received by the FI in respect of a Loss for which a valid Payment Demand has been sent to the Fund.
Report	A report by an FI substantially in the form prescribed by the Guarantor
Report Date	As noted in this Operations Manual
Signature Date	Date on which the last Party in time signs this Agreement

Transaction Acceleration	In respect of an Intermediary Transaction, and unless otherwise specified in the specific terms of the Guarantee Agreement, the occurrence of an event of default (howsoever defined) under such Intermediary Transaction which has entitled the FI to accelerate payment of any amounts owed to it and the FI has exercised such right of acceleration (or is prevented from exercising such rights of acceleration solely by application of mandatory laws and regulations preventing or staying the exercise of such right).
Transaction Default	In respect of an Intermediary Transaction that a Borrower will be unlikely to meet its payment obligations under such Intermediary Transaction (without recourse by the FI to action such as realisation of security); or a Borrower has failed to meet any payment obligation under the relevant Intermediary Transaction which has continued for at least 90 calendar days and meets the definition a Non Performing Loan
Transaction Effective Period	The effective period for an Intermediary Transaction defined as the period from the date of signature of the loan agreement between the Borrower and the FI, to the date of the last payment against that loan account on the general ledger of the FI

Article 2: Issuance of Guarantee
The Guarantor may issue a Guarantee for an Intermediary Transaction, subject to the fulfilment of the Conditions Precedent of a Guarantee by the FI and subject to the request being submitted substantially in the form of the Guarantee Request in Annex 2 of the Program Operations Manual, including all ancillary documents set out in this form.

Coverage for an Intermediary Transaction shall only be effective on fulfilment of all conditions precedent in the Guarantee Issue Letter for that Intermediary Transaction, including but not limited to the signature by both parties of the underlying Intermediary Transaction loan agreements and that agreement's respective conditions precedent.

Article 3: Additional Guarantee Issuance Conditions
If the aggregate amount of the Intermediary Transactions already guaranteed and the Intermediary Transaction, for which a Guarantee is being requested, exceeds the Maximum Portfolio Volume for the FI, the Guarantor shall have the right to reject the request.

Article 4: Intermediary Transaction Eligibility Criteria
Intermediary Transactions seeking a Guarantee shall comply with each of the following Transaction Eligibility criteria:

a. Origination period: Intermediary Transactions shall be newly originated, i.e., entered into by the FI during the Inclusion Period (for the avoidance of doubt this shall exclude refinancing transactions which have already been financed by another financial institution except at maturity),
b. Type of financing: Intermediary Transactions shall be Working Capital Financing transactions only;
c. Form: Intermediary Transactions shall have a fixed repayment schedule

d. Principal amount: The principal amount of an Intermediary Transaction (which must be included for its full principal amount and not just the guaranteed portion thereof) and shall not exceed the amounts allowed in the Operations Manual;
e. Tenor: the tenor may not exceed 5 years;

Article 5: Coverage
The Guarantee coverage will cover 50% of the total principal of each Loan that has been issued with the Guarantee and which has not been excluded at the date that a Guarantee Claim is made.

The coverage will be in force until such time as the underlying Loan and interest and any penalties are fully settled with the FI unless otherwise stated in the Loan Guarantee Issue Letter.

Article 6: Losses
Losses mean any principal amount (excluding interest, late payments or default interest or fees, capitalized interest, fees and any other costs and expenses) due and paid to the FI under the terms of the covered Intermediary Transaction following the occurrence of either a Transaction Default, a Transaction Acceleration or a Transaction Restructuring.

Article 7: Guarantee Fee (or 'Fee')
The guarantee fee will be 2% of the guaranteed portion of the loan per annum, collected at the time of first disbursement and in the anniversary month of the loan thereafter. The first fee will be based on the maximum guaranteed amount approved by the DRF and subsequent fees will be based on the guaranteed balance in the anniversary month. The FI shall be permitted to pass on this fee by incorporating it into the Intermediary Transaction pricing to the Borrower.

Late payment penalty: The Guarantor shall apply a late payment penalty equal to 5% of the outstanding fee amount per month for a period of three months. If the Fee has not been paid by the FI for a period of three calendar months from the date due, the Guarantee(s) for that loan shall no longer be in force and effect and the guarantee Issuance for that loan shall be invalidated. In addition, the FI will lose its ability to submit new applications for guarantees.

Taxes, Drafting and expenses: both parties shall pay their respective counsel for any expenses incurred in executing this Agreement. The FI shall bear the cost of any taxes, duties or other non-drafting costs related to the performance of its duties under this agreement and it indemnifies the Guarantor against any claims for such costs in the case of admissibility of evidence, performance, execution, modification or regulatory charges with respect to this Agreement or any Guarantee issued under this agreement.

Article 8: Claim Payment Demands
Claim payment demands for defaulting Intermediary Transactions will only be valid if made in substantially in the form set out in Claim Payment Demand in Annex 4 in the Program Operations Manual and if all Conditions Precedent to Claim Payment Demands have been fulfilled.

Article 8: Conditions precedent to Claim Payment demands

Approval of claim payments shall be subject to the fulfilment of the following conditions precedent:

i) The borrower was eligible for the guaranteed loan and the loan was not disbursed prior to the issuance of the guarantee letter by Guarantor

ii) The loan remained in arrears for more than 90 days and has become a Non-Performing Loan as defined

iii) The FI has contacted the defaulter and executed all the necessary actions to recover the loan including:

   a. Send a reminder letter to the borrower when the first instalment or part thereof, including interest is delayed
   b. Send a warning letter within 10 (ten) days from the first reminder letter if repayment is not made after the reminder
   c. Call in the entire outstanding loan amount from the borrower within the next 15 (Fifteen) days from the day the warning letter was served. At this point, a joint meeting of the FI, DBE and the borrower shall be carried out for possible recoverability of the loan.
   d. If the loan is considered recoverable after discussion with the borrower, the FI shall send a letter to DBE proposing rescheduling of the loan with a full explanation.
   e. If the proposal for rescheduling of the loan is accepted by DBE, FI shall reschedule the loan for the agreed period of time

iv) The warning given to the borrower has been ignored

v) Legal actions have been initiated to foreclose on any collateral

vi) Guarantee fees have been paid as they fall due

vii) The loan had not been restructured or rescheduled without prior approval of Guarantor

viii) The FI informed Guarantor in writing within the agreed time frame that the borrower has not made the payment

ix) The claim was presented to Guarantor within the agreed time frame

x) There has been no material breach of the conditions contained in this agreement by the FI

xi) All documentation stated under Article 10 in 'Claim Support Documentation' has been furnished

Article 10: Claim support documentation

Following documents must accompany any payment demand on any claim against the guarantee:

i) The original loan signed document or a certified copy at the discretion of the DBE.

ii) Register of written communication between the borrower and the FI

iii) Actions initiated by the FI with regards to recovery of outstanding amounts including notice and warning served
iv) The loan account entries on the General Ledger of the FI (loan statement of account)
v) Proof of payment of all invoiced guarantee fees being fully paid up
vi) Confirmation of 'No condition of Exclusion' by the FI.

Article 11: Guarantee Claim Payment timeline under the guarantee
The Guarantor shall use best endeavors to meet Claim Payments according to the approximate timetable set out in Annex 5 of the Program Operations Manual. Payments, however, shall be less the amount of the agreed proportion of any repayments recovered in between.

Article 12: Servicing and Recoveries
The FI shall service the Loans in accordance with its internal guidelines and procedures. Recoveries shall be shared between the FI and the DRF pro rata to the Guarantee Rate. The DRF's claims will rank pari-passu with the FI's claims with regard to any Loss Recoveries.

Article 13: Right of Claw back
The Guarantor will be entitled to be repaid by the FI any amounts recovered against the Loan subsequent to the Guarantee having been paid out. The FI undertakes to inform the Guarantor of any recovered funds. The FI acknowledges that failure to do so could result in additional costs being charged to the FI for recovery by the Guarantor.

Article 14: Termination date
A call under the Guarantee shall be made at the latest on a guarantee 180 days after the maturity date of the loan.

Article 15: Termination of the Guarantee
Unless extended, the guarantee will end on the maturity date of the loan.

Article 16: Exclusion of an Intermediary Transaction
At any time, the DRF may verify whether an Intermediary Transaction covered by a Guarantee continues to be an eligible Intermediary Transaction and whether it is in compliance with the terms of the Guarantee. At any time upon becoming aware of the same, the DRF may notify the FI by sending an Exclusion Notice identifying such non-eligible Intermediary Transaction.

If a FI becomes aware of the same the FI shall include such information in the immediately following Report delivered to the DRF.

In each of the cases, the Intermediary Transaction shall be excluded coverage by the Guarantee as of the date on which it became a non-eligible Intermediary Transaction. However, if an Intermediary Transaction is or becomes a non-eligible Intermediary Transaction, as a result of any event or circumstance beyond the control of the FI after a payment demand relating to an Intermediary Transaction such Intermediary Transaction shall be deemed to be covered by the Guarantee.

Article 17: FI event of default

The Guarantor reserves the right to terminate this agreement for any material reason, including but not limited to the following:

i) Failure to pay the Guarantee Fee
ii) Failure to comply with the reporting requirements of this Agreement
iii) Failure to meet the standards of monitoring and operations of a reasonable prudent operator in the Financial Services Sector in Ethiopia
iv) Any change of Board of Directors or senior management that has not been notified in advance to DBE in terms of the Agreement
v) Failure to meet any regulatory requirements under Ethiopian Financial regulations or Ethiopian Law
vi) Any adverse change in the financial standing of the FI

Article 18: Reporting and provision of information

The FI shall provide DBE on the 10th of each month or next business day the following information in a standardized form the information on the Intermediary Transactions and contained in Annex 6 of the Program Operations Manual.

Failure to report any loan will invalidates the guarantee coverage for that loan until such time as that loan is reported on for the period of non-reporting AND a re-inclusion notice for that loan has been received from the Guarantor. Failure to report may also lead to termination of the ability to submit new applications to the DRF.

Intermediaries may also be requested to provide, from time to time, further information related to the Financial Service Providers covered by the Guarantee in the context of programme evaluations and employment and growth reports.

Article19: Responsibilities of Participating Parties

This Article 19 is included for purposes of clarity to the Parties. Where this Article and any other Article in this Agreement can be interpreted as contradictory the provisions of that specific Article shall be interpreted as taking legal precedence

The Guarantor

i) DBE shall from time to time publicize the credit risk guarantee facility to the FIs as set out in Article 29 of this Agreement
ii) DBE shall issue a call for EoI to select financial intermediaries for the guarantee fund as set out in the Calls for Expression Annex to the Program Operations Manual.
iii) DBE shall appraise applications for credit guarantee by using prudential mechanisms before entering into Guarantee Agreement with FIs
iv) DBE shall issue guarantee letters to eligible FIs who fulfil the criteria specified in the OM and on the terms set out in this Agreement
v) DBE shall closely follow-up and monitor guaranteed loans and take the necessary actions if deemed necessary

vi) DBE shall honor and pay claims that fulfill the conditions specified in the Guarantee Agreement. Claim settlement shall also be conducted in the manner and time frame set out in the guarantee agreement

vii) DBE shall closely follow-up and monitor recovery of the NPLs

viii) DBE shall provide the Guarantee Fund Management Committee with all the reports set forth in the "policies and administrative guideline" section of this OM

Financial Intermediaries

i) The FI shall evaluate credit applications by using prudent credit appraisal mechanism and shall use its normal due diligence in selecting viable borrowers on the terms set out in this Agreement

ii) The FI shall closely follow-up and monitor the loan in accordance with its normal credit operation practices

iii) The FI shall pay a guarantee fee in the manner and time frame and on the terms set out in this Agreement

iv) The FI shall be and remain in compliance with the prudential and regulatory norms set forth and enforced by the NBE as certified by their quarterly report to the NBE

v) The FI shall ensure that the guarantee claim is lodged with DBE in the form and in the manner and within such time as specified in the Guarantee Agreement

vi) The payment of guarantee claim by DBE to the FI does not in any way take away the responsibility of the FI to recover the entire outstanding amount of the credit from the borrower

vii) The FI shall ensure that the guaranteed loans are entirely utilized by the borrowers for the intended purposes

viii) The FI shall exercise all the necessary precautions and maintain its recourse to the borrower for entire amount of credit owed by it and initiate such necessary actions for recovery of the outstanding amount

ix) The lending institution shall comply with such directions as may be issued by DBE, from time to time, for facilitating loan follow up, loss recoveries and reporting in the guaranteed loans

x) The FI shall exercise the same diligence in following-up and recovering the NPLs, and safeguarding the interest of DBE in all the ways open to it as it might have exercised in the normal course if no guarantee had been provided by DBE

xi) The FI shall refrain from any act of omission or commission, either prior to or subsequent to call on a guarantee, which may adversely affect the interest of DBE as the guarantor

xii) The FI shall provide the guarantor with all reports set forth in the guarantee agreement

Miscellaneous Provisions
Article 20: Governing Law and Language
The terms of the Guarantee Agreement shall be in the English language and the Guarantee Agreement shall be governed by the laws of Ethiopia.

Article 21: Guarantee Currency
The Guarantee shall be expressed in the Ethiopian Birr ('ETB'). All amounts and payments made under the Guarantee Agreement by and to the Fund shall be in ETB.

In the case of Intermediary Transactions in currencies other than ETB, the Guarantee shall be limited to the BIRR amount determined at the date of issuance of the Guarantee.

Article 22: Force Majeure
Under a condition of Force Majeure, (a situation that is beyond control of both parties such as but not limited to natural disaster such as drought, earthquakes, floods; war and acts of war; civil strife; and pandemic), the guarantee facility may be called upon by the FI for defaulting Intermediary Transactions.

Any recoveries based on post Force Majeure event rescheduling of debt, shall be shared pari passu between the Guarantor and the FI.

Article 23: Severability
Each provision in this Agreement is severable. If any provision of this Agreement is found to be unlawful, not applicable, or unenforceable under any regulation, regime or law, this shall not affect the enforceability, validity or applicability of any other provision.

Article 24: Counterparts
This Agreement can be signed in counterpart and each copy shall have equal legal status and be binding on both Parties upon counterpart Agreement signature

Article 25: Annexes
The Annexes to this Agreement form part of the Agreement and shall have equal legal force as the other provisions

Article 26: Domiciliam Citandiet Executandi
The contact details for each Party are recorded as follows:
The Development Bank of Ethiopia

P.O. Box 1900

Addis Ababa

Email: dbe_ecg@ethionet.et
[NAME FI]
[ADDRESS]
[PHONE]
[EMAIL]
[Details contact person: NAME, ADDRESS, PHONE, EMAIL]
Article 27: Monitoring and Audit

Intermediaries and the relevant Borrowers covered by the Guarantee shall agree to allow and to provide access to documents and premises related to the relevant Guarantee for the representatives of the World Bank (including the Auditors of the World Bank, the DRF, agents of the DRF, the Guarantor, any other institution or body which is entitled to verify the use of the Guarantee in the context of the program and any other duly authorized bodies under applicable law to carry out audit or control activities. To that effect, the Financial Intermediaries shall also include appropriate provisions in each agreement with Borrowers to this effect.

Article 28: Compliance with Laws

The FI shall comply in all respects with all laws and regulations of Ethiopia to which it may be subject and, the breach of which may (i) adversely impact the performance of the Guarantee Agreement or (ii) adversely prejudice the interests of, inter alia, the Guarantor under the Guarantee Agreement. Failure to comply shall be deemed an FI Event of Default.

Article 29: Transfer

The FI shall not be entitled to transfer any or all of its rights and obligations under the Guarantee without the consent of the Guarantee Fund Management Committee and the Guarantor, such approval to be received in writing.

Article 30: Money laundering, Fraud and Terrorism

[FI] shall comply with relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud to which it may be subject and shall not (other than as a result only of events or circumstances beyond the control of the FI) maintain business relations with other Financial Service Provider entities incorporated in territories whose jurisdictions do not co-operate with such standards.

Annex 3.8: Guarantee Request Letter

[NAME of FI]
[ADDRESS]
[PHONE]
[EMAIL]
[Details contact person: NAME, ADDRESS, PHONE, EMAIL]
[Date]

[Recipient Name]
The Development Bank of Ethiopia,
External Fund and Credit Management Directorate

RE: GUARANTEE AGREEMENT SIGNED BETWEEN DBE AND [FI NAME] ON [DATE]

Dear [Recipient Name]:
We refer to the agreement signed by our organization and yourselves and amended on [DATE] [DELETE IF NOT RELEVANT]. Terms referred to in this letter have the same meaning as in the Agreement.

We hereby request a guarantee to be issued in respect of **50% of principal** of the following loan on the terms set out in the Agreement:

[FI NAME]
[FI ADDRESS]
[FI CONTACT PERSON]
[CONTACT NUMBER]
[EMAIL ADDRESS]
[LOAN RECIPIENT NAME]
[LOAN RECIPIENT ADDRESS]
[LOAN RECIPIENT CONTACT NUMBER]
[LOAN RECIPIENT EMAIL ADDRESS]
[LOAN NUMBER]
[LOAN AMOUNT]
[LOAN TENOR]
[EXPECTED SIGNATURE DATE]
[LOAN DRAWDOWN DATE(S)]
[LOAN AMORTISING PROFILE – ATTACH PROFILE IF NOT AMORTISING OR BULLET OR IF GRACE PERIOD]
[INTEREST RATE]
[ASSETS FINANCED]
[REPAYMENT DATES AND AMOUNTS]
[SPECIAL CONDITIONS IF ANY]

We attach the credit assessment and loan agreement hereto. We confirm that all requirements in respect of application for the issuance of a guarantee against an individual loan as set out in the Agreement have been fulfilled. We confirm that we are still in compliance with all conditions of a Financial Intermediary as set out in the Agreement.

Sincerely,
[Your Name]
[Title]
Enclosure: Loan Agreement
Credit appraisal report
Loan amortization schedule

Annex 3.9: Guarantee Issuance Letter

[Recipient Name]
[Address]
[DATE]

RE: GUARANTEE AGREEMENT SIGNED BETWEEN DBE AND [FI NAME] ON [DATE], LOAN REQUEST [LOAN NUMBER]

Dear [Recipient Name]:
We refer to the agreement signed by our organization and yourselves and amended on [DATE] [DELETE IF NOT RELEVANT].

We refer to the Guarantee Issue request letter received for [LOAN NUMBER]

We hereby confirm that DBE accepts your request and assumes a guarantee to (FI NAME) for losses which may be occurred in respect of the loan agreement referred to below. The guarantee shall be effective from the signature of the loan agreement above until the date of the payment of the last instalment. **The Guarantee shall cover 50% of the principal on that loan** as at the date that the loan is deemed non performing, such a date to be 90 days after the failure to make an instalment payment, and according to the terms of the Agreement and additional terms set out below [IF ANY]

[LOAN RECIPIENT NAME]
[LOAN RECIPIENT ADDRESS]
[LOAN RECIPIENT CONTACT NUMBER]
[LOAN RECIPIENT EMAIL ADDRESS]
[LOAN NUMBER]
[LOAN AMOUNT]
[LOAN TENOR]
[EXPECTED SIGNATURE DATE]
[LOAN DRAWDOWN DATE(S)]
[LOAN AMORTISING PROFILE – ATTACH PROFILE IF NOT AMORTISING OR BULLET OR IF GRACE PERIOD]
[INTEREST RATE]
[REPAYMENT DATES AND AMOUNTS]
[SPECIAL CONDITIONS IF ANY]
[GUARANTEE FEE: PAYABLE ACCORDING TO THE TERMS OF ARTICLE 7 IN THE AGREEMENT]

Sincerely,
[Your Name]
[TITLE]
Enclosure: Loan Agreement

Annex 3.10: Guarantee Claim: Payment Demand

[NAME FI]
[ADDRESS]
[PHONE]
[EMAIL]
[Details contact person: NAME, ADDRESS, PHONE, EMAIL]
[Date]

[Recipient Name]
C/O The Development Bank of Ethiopia
P.O. Box 1900
Addis Ababa
Email: dbe_ecg@ethionet.et

RE: GUARANTEE AGREEMENT SIGNED BETWEEN DBE AND [FI NAME] ON [DATE], [LOAN NUMBER]

Dear [Recipient Name]:

We refer to the agreement signed by our organization and yourselves and amended on [DATE] [DELETE IF NOT RELEVANT]. We refer to the guarantee issued against loan number [NUMBER] TO [RECIPIENT] for the amount of [AMOUNT] on [DATE]. We refer to our letter of notification of instalment in arrears dated [DATE] in respect of this loan.

We now confirm that this loan has been in arrears for 90 calendar days for the amount of [PRINCIPAL OUTSTANDING]. We hereby request payment of 50% of this amount to the bank account stipulated in the Agreement, as per the terms and subject to the process set out in the Agreement.

We confirm that we are legally bound to continue to recover this amount and that any amounts recovered will be shared pari-passu between [FI NAME] and the DRF Credit Risk Guarantee Fund, and that we will continue to report activities in this regard as set out in section [SECTION] of the Agreement.

Sincerely,
[Your Name]
[Title]

Enclosure: Loan Agreement

Annex 3.11: Claim processing Timetable

Actions	Cumulative time elapsed from date of first missed installment
First missed installment	0
FI informs Guarantor of missed installment. FI commences efforts to collect installment	15
A warning letter is served by FI to Borrower if no repayment is made or effort to collect is unsuccessful	30
FI informs Guarantor of progress of recovery or restructuring process	60
Loan classified as Non-Performing Loan (NPL) by FI and FI informs Guarantor that Loan called in after it is satisfied that no payment will be made.	90
FI issues guarantee claim payment demand to Guarantor request with accompanying documents and reasons for Loan default[31]	95
Guarantor acknowledges receipt and requests additional information if any	100
Guarantor confirms documents are complete	107
Claim approved(rejected) by Guarantor and if approved, payment authorization sent to NBE	114
For claim above watermark level: Guarantor notifies DRF Secretariat of Claim item	114
Payment to FI made by NBE in respect of Defaulted Loan as per DBE payment authorization	120

[31] FI shall have the option to delay the claim request if it has restructured the loan or believes the borrower will be able to begin making payments again.

Annex 3.12: Reporting requirements and reporting format

Intermediary reporting

DBE shall receive from each Financial Intermediary by the 10th of the month or next business day for the loans that were issued a guarantee in the previous month. The report shall include the following minimum information:

Individual loan guarantee recipient report

- Name
- Address
- Postal Code
- Region
- Establishment date
- Number of staff
- T/O
- Assets financed
- Comments

Transaction Report

- SME/borrower name
- Transaction ID
- Loan Type
- Purpose
- Principal amount
- Interest rate
- Maturity (months)
- Grace period (if any)
- Signature date
- First drawdown date
- First instalment date
- Amortisation profile
- Payment frequency
- Collateralisation rate
- Comments

Additional reporting requirements by MFIs

The report shall also include a summary of MFI activity on their total book under the following calculated indicator ratios:

- Portfolio at Risk. - the total amount of guaranteed portfolio with payments overdue divided by the total outstanding guaranteed portfolio. (by institution and consolidated)

- Recovery rate - the ratio of amounts recovered after outstanding loan amount has been called in divided by the outstanding loan amounts called in. (by institution and consolidated)
- Pay-out rate - gross pay-outs over a year divided by the average outstanding guaranteed loan portfolio over that year. (by institution and consolidated)
- Net loss rate - Pay out net of recoveries over portfolio outstanding on a 12-month rolling basis
- Risk-exposure - Projections of pay-out and net loss rates for the Guarantee facility based on above mentioned indicators as well as on projected guaranteed outstanding loan portfolio provided by bank and on the relevant risk percentage borne by the Guarantee facility.
- Each FI shall also provide DBE with a copy of quarterly reports prepared in accordance with the requirement of National Bank of Ethiopia in a quarterly basis.

Annex 3.13: Calls for Expression of Interest

Guarantee Fund Mechanism

CALL FOR EXPRESSION OF INTEREST

TO SELECT FINANCIAL INTERMEDIARIES FOR

Credit Risk Guarantee Fund

(Published on [DATE])

The objective of this Open Call for Expression of Interest, launched by DBE as oversight institution of the DRF Credit Risk Guarantee Fund ('the Facility' or 'DRF'), is to select eligible financial institutions to become Financial Intermediaries under the Credit Risk Guarantees Fund.

The DRF CRGF provides a 50% partial credit guarantee to enhance the lending of financial institutions to SMEs. The facility will enable the financial institutions to leverage their equity and discover new markets and clients.

All applications for such instrument under the Facility to be submitted to DBE should conform to this Open Call for Expression of Interest.

Credit Loan Guarantee Fund Introduction

Eligible Financial Intermediaries

This Open Call for Expression of Interest is addressed and restricted to Financial Intermediaries that:

1. Are licensed by the National Bank of Ethiopia (NBE) and compliant with all prudential regulations
2. Have a sufficient, capable and qualified management team, institutional capacity and corporate governance structure
3. Have at least three years of operational experience in providing financial services for SMEs
4. Have been profitable for the last two years and have a low risk profile
5. Have a capital adequacy ratio (ratio of total capital to total risk-weighted assets) of at least 12% for MFIs and 8% for Commercial Banks as per prudential regulations
6. Have an acceptable write off rate
7. Have sufficient liquidity, by maintaining liquid assets at 20% for MFIs and 15% for Commercial banks of total deposits
8. Have a good lending portfolio quality (Portfolio at risk >90 days of less than 5% in the last 12 months or Non-Performing Loans as a ratio of total assets of less than 8%)
9. Have sufficient provisions and risk management policies for managing credit risks, liquidity risks, interest rate risks, currency risks, market risks and operational risks
10. Have sufficient outreach in terms of branch network
11. For MFIs, have a client base of at least 10,000 borrowers (women and men) at the time of application, reached directly or through partner institutions
12. Have a demonstrated management commitment and capacity to manage financial support and to achieve desired objective of the project
13. Demonstrable plan of action to lend to SMEs in Ethiopia
14. Sufficient IT and Management Information Systems (MIS)
15. Adequate financial information systems in place to provide accurate financial statements in a timely manner

The selection criteria for all applications will include, but will not be limited to:

1. Soundness and sustainability of the institution, as demonstrated by good key performance indicators
2. Willingness and ability of the institution to introduce energy lending and scale-up in the target market segment within 2-3 years
3. Ability to raise credit line/refinancing (liquidity) for lending portfolio
4. Demonstration of commitment to client protection and transparent pricing
5. Proven experience in SME lending
6. Signature of an authorised person or the Board of an MFI supporting the application for participation

Financial Intermediaries shall comply with relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud to which they may be subject and shall not be established and shall not maintain business relations with entities incorporated in any Non-Cooperating Jurisdiction.

Definitions and Interpretation

In this Call for Expression of Interest, capitalized terms and expressions shall have the meaning attributed to them below or as elsewhere defined in this document and its Annexes, unless the context requires otherwise.

Applicant	Means an entity applying to this Call for Expression of Interest as a potential, future Financial Intermediary.
Financial Intermediary	Means (i) any financial institution or credit institution duly authorized, if applicable, to carry out lending or leasing activities according to the applicable legislation.
Agreement	An agreement entered into between DBE and the Financial Intermediary.
Deadline	Means [DATE]
Operation	Means a transaction entered into between DBE and __________, a Financial Intermediary under the Guarantee Agreement.
Eligible Transaction	Means a Transaction that complies with all the Eligibility Criteria.
Expression Interest	Means an application to the Open Call for Expression of Interest submitted to DBE within the Deadline, conforming to the provisions of Annex I to this Open Call for Expression of Interest.

The application procedure

Financial institutions interested in applying to this Call for Expression of Interest shall submit an application to DBE before the Deadline to be considered as a possible Financial Intermediary under the Facility.

Following selection of the applications, the Guarantee Agreement shall be signed with the Applicant. The ultimate decision on the form of the agreement shall be made at the discretion of DBE, in line with the mandate given to DBE.

In accordance with Annex I to this Open Call for Expression of Interest, the application should include the Applicant's identification and the Information Requirements with supporting documents.

Such Annex is composed of two appendixes:

1. Applicant Identification Form
2. Minimum Information Requirements

Applicants may send questions regarding the Open Call for Expression of Interest. DBE shall analyze such incoming questions and may publish from time to time the resulting answers in the form of an FAQ (Frequently Asked Questions) document posted on DBE's website. DBE reserves the right to update the FAQ document from time to time as and when it regards appropriate.

Language and governing laws

- The Expression of Interest shall be prepared in English and Amharic.
- The terms of the Guarantee Agreement shall be in English. The Guarantee Agreement shall be governed by the laws of Ethiopia.

Submission of Expression of Interest

The Expression of Interest shall be submitted before the Deadline in writing via registered mail or professional courier and in either case by email. The Expressions of Interest sent by registered mail or professional courier service shall consist of a closed single package, and shall contain the Expression of Interest, together with its attachments, in paper form or in removable electronic storage medium (e.g. CD-ROM, USB).

The Deadline is set on the [DEADLINE], provided that DBE may, in agreement with the IC of DBE, determine that the Deadline will end on an earlier date depending, inter alia, on the availability of the budgetary resources for the Facility or any amendment to the Guarantee Agreement.

Any change in the Deadline will be announced officially in the Facility section of DBE's website.

The Deadline applies (i) in case of e-mails to the reception by DBE and (ii) in case of registered mail or professional courier service to the date of dispatch proven by the post office stamp or a dispatch receipt.

The Expressions of Interest shall indicate the name of the Applicant and be sent to the following address:

The Development Bank of Ethiopia
P.O. Box 1900
Addis Ababa
Email: dbe_ecg@ethionet.et

An electronic version of the Expression of Interest shall be sent to stating in the subject of the email, as appropriate: "DRF –Expression of Interest: [name of the Applicant]".

An acknowledgement of receipt will be sent to the relevant Applicants by DBE via e-mail, which shall state the confirmation that the Expression of Interest was received before the Deadline. The acknowledgement of receipt shall not be construed as a declaration of completeness of the Expression of Interest and the documents submitted therewith, nor any kind of assessment or acceptance of the same.

The Applicants may withdraw, in the same manner as specified above, their Expression of Interest at any stage of the Selection process.

Selection procedure

Intermediaries will be selected in due consideration of the general principles of transparency, equal treatment and non-discrimination, in compliance with DBE's policies, rules, procedures and statutes and in conformity with best business and market practices.

The Expressions of Interest for the Guarantee shall be subject to the selection process as set out below. DBE shall assess, on a continuous basis, the applications received pursuant to the selection process outlined in the following sections.

The selection process of each applicant comprises of the following steps, provided that each step was concluded with a positive result:

1. Pre-Selection
2. Compliance with all formal criteria
3. Due Diligence
4. Final Selection and Approval Process
5. IC Approval

During the entire selection process until entering into a legally binding agreement with an Applicant, DBE has full discretion to consider or not Applicants and no Applicant has any claim or other right or may expect to be ultimately selected as Intermediary for the DRF. Any negotiation of terms and conditions of Guarantee Agreements by no means entails any obligation for DBE to enter into such Guarantee Agreement with an Applicant.

As further described in the sections below, when assessing the application, DBE will use its professional analysis and judgment.

Pre-selection

Applications will be assessed by DBE for pre-selection on the basis of the Expressions of Interest, on a "first come, first served" basis.

Compliance with all formal criteria

DBE shall assess whether the CRGF application has been submitted in accordance with the provisions of this Call for Expression of Interest and that all necessary supporting documents are provided (in the form requested if specified), including:

i) The Applicant declares that it:

a. is authorized to carry out its business under the applicable regulatory framework;
b. is not in the situation of exclusion
c. does not perform any illegal activities according to the applicable legislation of the country of establishment of the Applicant, as validly represented in the Expression of Interest;

ii) The Expression of Interest has been submitted and prepared in accordance with the Open Call for Expression of Interest and that all required representations, information and supporting documentation required here under are provided (in the form requested, where specified).

Only applications that meet all formal criteria may continue to go through the next step of the assessment process.

Due Diligence

After completion of the formal check of the received Expressions of Interest, DBE will pre-select the Applicants according to the evaluation criteria set out below. DBE assesses the quality of the application and its impact and inserts the scores achieved in a matrix determining the result of such assessments as described below.

Assessment of the quality of the contents of the application: In the quality assessment DBE will evaluate the overall quality of the contents of the application. The criteria listed below are assessed based on the application provided and at the discretion of DBE.

The quality assessment is performed as set out below:

- Is the Applicant expected to be in a position to comply with all contractual obligations under the Guarantee Agreement?
- Capacity of the Applicant to manage risk of the Operation;
- The experience, ability and willingness of the Applicant to finance SMEs. This shall be assessed by DBE based, inter alia, on the track record of the Applicant's SME activity in lending or leasing;
- Quality and plausibility of the DRF implementation proposal, with particular focus on the DRF implementation and rollout strategy, proposed volumes, and previous experience.

All Applicants will be sent a notification by email about the result of the pre-selection ("Pre-selected", "On the reserve list" or "Not pre-selected")."Pre-selected" Applicants are advanced to the Due diligence phase of the process.

DBE will process all "pre-selected" applications chronologically, with the date of application receipt being the principal criterion. Reserve listed applications are taken forward depending on, inter alia, budget availability and geographical coverage criteria. However, DBE maintains the right to fast-track applications that have been received on a later date, or are on the reserve list, in order to ensure a wide geographical cover and to maximize the reach of the programme.

DBE may suspend or abandon the pre-selection process at any time and no Applicant may claim any right to be pre-selected or included on the reserve list as described above.

On-site Due diligence
For Pre-selected applications the next step will be the on-site due diligence visit, carried out in accordance with DBE's internal rules and procedures, where operational matters relating to the DRF implementation shall be covered, with a main focus on:

- General Information such as
- the institution's business plan with regard to SME lending/guaranteeing,
- the internal processes of origination,
- risk management,
- collection recovery/workout and the ability to comply with the reporting requirements;
- Financial Information such as
- funding sources and ownership structure;
- Pricing policy as set out in the Applicant's internal policies,
- there will be a particular focus to the envisaged pricing of the new product vis-à-vis existing products/the Applicant's pricing policy); and
- DRF proposal with a particular focus on the applicant's ability to build up the envisaged Portfolio and/or the envisaged additional features.

After the final terms of the proposal are agreed between DBE and the Intermediary, following the due diligence and ensuing discussions, DBE will consider each application in light of the additional information received.

The due diligence process does not comprise legal negotiations.

Final Selection and Approval Process
Subject to the satisfactory outcome of the due diligence and, if needed, additional information provided, DBE would request GFMC approval for the Guarantee Agreement to be entered into with the Intermediary, at which point the application is considered as "Selected".

DBE has no obligation to enter into a Guarantee Agreement at this stage.

The GFMC makes the final determination based on recommendations from DBE but is an independent body and can deny an application in good faith for which correspondence will not be entered into regarding the reasons for the rejection.

Those Applicants, whose Expression of Interest is rejected at any stage of the selection process, shall have the right to submit a written complaint by e-mail and registered mail or professional courier service, to the same address used for the submission of the Expressions of Interest above, within thirty (30) days of receipt of the rejection notice.

The participation of any institution in the programme will depend, inter alia, on the budget available for DRF and other considerations made by DBE such as, without limitation, outcome of the due diligence and result of negotiations with the institution.

Publishing of information on the Financial Intermediaries

DBE shall reserve the right publish each year a list of Financial Intermediaries, Financial Sub-Intermediaries and Final Recipients supported through the programme, which shall include for each Financial Intermediary

1. The name and address of the Financial Intermediary with whom DBE has signed a Guarantee Agreement.
2. Furthermore, the list shall provide an indication of the type of financing that is being made available through the FI.
3. The Financial Intermediary, Financial Sub-Intermediaries and Final Recipients may, prior to receiving financial support under the Facility, declare in writing (including by a representation in the relevant agreement) that the publication requirement set out above risks harming its commercial interests or risks threatening the rights and freedoms of individuals concerned on the basis of a written justification.

Annex 3.14: Lender Reporting Format

Guaranteed Loan Status

Lender's Name: **Lender's Street Address:**

Lender's City, State, Postal Code **Lender's Contact Person:**

Contact Person's Telephone Number: **Contact Person's email** **Month Ending:**

Scheme Loan Number	Lender Loan Number	Next Payment Due Date	Amt Disbursed this Period on Total Loan	Amount Undisbursed on Total Loan	Guarantee Percentage	Interest Rate	Interest	Principal	Total Payment Received	Interest Period From	Interest Period To	# of Days	Calendar Basis	Balance After Payment
								Total:	0.00					**Total:**

Annex 3.15: Lender Performance Report

PFI Report														
	Loans Approved		Loans Disbursed		Current Loans		90 days Past Due		Loans Restructured		Failed Loans		Loss Rate	
Year														
	Number	ETB	Number	ETB	Number	ETB	Number	ETB	Number	ETB	Number	ETB	Number	ETB
2020													equals number lost / number disbursed	equals ETB lost / ETB disbursed
2019														
2018														
2017														
	Overall Calculations													
	Loss Rate	Number	equals total number of loans failed/total number of loans disbursed											
	Loss Rate	ETB	equals total ETB of loans failed/total ETB of loans disbursed											

Annex 3.16: Basics of Credit Application Processing

Applicant Eligibility (Character) Review

This is the first step in the application process. To begin, the list of ineligible businesses should be checked. If the business is listed, the bank should be called and told of the issue. In addition, the web portal should be updated as it should prevent applications from businesses that are not eligible from being submitted. The second step is to perform a web check of the borrower's business and the names of the owners. If a credit bureau is available, checking the credit bureau will be an integral part of the process. The Credit Officer should note in the file the date on which the web was checked and whether there were any findings. The Credit Officer should verify that the lender made a site visit and personally interviewed the applicant. The lender should identify how long it has had a relationship with the applicant. A long relationship is a positive factor. The next step is to check to see if the environmental and social safeguards are adequately discussed in the application. If there was no derogatory information in the file, the business will be deemed eligible

Capacity Analysis

Cash Flow (Capacity) Analysis – With Financial Statements

(when financial statements <u>ARE</u> available – see below for the case where financial statements are not available).

This section will determine the capacity of the borrower to make loan payments based on the projected cash flow of the business after disbursement of a loan. The financial statements for a minimum of the last two years will be used for this analysis. Financial statements may be audited, compiled by an accountant, or created by the applicant. Audited statements are prepared by an accounting firm and reflect a high level of effort to verify all the cash flows reflected in the statements. A compiled statement is put together by an accountant using documents and other information that is supplied by the business owner but is not verified at all. The benefit to compiled statements is that they use the proper format for each statement. Finally, some business owners create their own financial statements based on samples they find in accounting books, on the web, using small business accounting software or copies of previous statements created by accountants. While better than not having any statements at all, credit officers should attempt to verify such items as revenues and expenses by reviewing cash deposits into bank accounts and checks written to vendors from checking accounts.

The first step in cash flow analysis is to understand the purpose of the loan. Why is the applicant borrowing the money? What does he or she expect to do with the funds? The applicant or lender should be able to easily explain why the money is being borrowed and how the funds will be used.

There are three statements that the applicant is likely to provide. They are the Balance Sheet, Income Statement, and Cash Flow statement.

The Balance Sheet reflects the applicant's financial position on a specific date. It will include the assets, liabilities and owner's equity in the business. The assets will reflect their current value as of the statement date. The value reflected is not always a market value. For depreciating assets, the value will be the original cost minus accumulated depreciation. Liabilities will be shown with the balance outstanding as of the date of the statement and will include both current and long- term liabilities (listed separately). A current liability is due within 12 months of the date of the statement. Long term liabilities are due more than 12 months from the statement date. The difference between the value of the assets and the amount of the liabilities is the owner's equity. This can be positive or negative. A negative owner's equity is a source of concern and additional care should be taken to understand how the loan will help the borrower eliminate the negative equity.

The Income Statement reflects the revenues of the business minus the cost of doing business. This should not be confused with a cash flow statement. The Income Statement includes noncash expenses such as depreciation. It also shows revenues related to when a sale occurred, not when the cash was actually collected. The main purpose of the Income Statement is to determine if the business can be operated profitably over a period of time. The basic calculation for net income is revenues minus the cost of goods sold minus general and administrative expenses minus taxes minus interest on any existing debt. If the result of this calculation is positive, then the business earned a profit.

The Cash Flow Statement is a summary of cash received and cash used during the year. This statement shows if an applicant can collect enough cash to pay its bills. When reviewing a cash flow statement, it is important to estimate expenses for the next year. In addition to salaries, overhead and taxes, do not forget to include expenses that may be specific to the applicant's industry such as permits, licenses or special equipment.

The Credit Officer can use the Income Statement to understand the changes in the net profits for the past two years.

When retained earnings grow, the applicant's net worth or Capital grows. Net worth is the owner's stake in a business. An increasing net worth is a positive sign as net worth is a cushion against future problems.

While the Cash Flow Statement shows all the cash that comes into and is paid out of a business, it is usually separated into three categories. The first is operating activities. These are items that are involved in the making and selling of products, the purchase of raw materials or services and payments of salaries and other expenses. The second category on the Cash Flow Statement is investing activity. This includes cash flows related to the fixed assets (buying and selling) used by the business. The purchase of a building or large piece of equipment would be examples. The final category is financing activity. This shows how much cash is raised by borrowing or by injection from owner (either as equity or as a loan to the company).

The Cash Flow Statement should be projected forward for up to 60 months to make a determination of whether the applicant can afford the loan. A lesser period is satisfactory depending on the tenor of the loan. The key item is to assess whether the projections are realistic.

The first step in analyzing the cash flow statement is to review revenues. The bank should have provided an estimate of revenues for the next 1-3 years. The job of the Credit Officer is to determine whether the estimates are reasonable. If the bank has not provided estimates, the Credit Officer must develop estimates based on other information available in the application.

The second step is to review the expected expenses. It is appropriate that many expenses will increase if sales and revenues increase. Make sure the increase in expenses is proportionate for the increased level of sales that are projected. Remember that some expenses will increase proportionately with an increase in business (raw materials for example), while others will increase at a decreasing rate (the number of people needed to manage the workforce) and others may not increase at all (the cost of utilities such as heat/air conditioning or lights may be constant).

The final step is to determine if there is enough additional cash flow from future operations after the loan is disbursed to pay for the loan payment. A ratio is calculated in which the amount of forecasted excess cash flow available to pay the debt is divided by the loan payment. This is called the debt service coverage ratio. A ratio in excess of 1.25 is a good indication that the borrower has enough excess cash flow to pay the debt. If the ratio is less than 1, there is not enough cash to pay the debt and if the ratio is between 1 and 1.25, the credit officer will have to make a decision about the reliability of the estimates made as part of the credit analysis. If the estimates are conservative, the loan officer may recommend approval. If the estimates are considered high, it may mean that the loan should be declined. In these cases, other factors related to the loan should also be considered when making a final decision. There may also be other factors that offset a debt service coverage ratio below 1.25.
Ratio Analysis is a means of determining the financial strength of a company relative to other companies in the same business. The six basic ratios are:
Current Ratio—Current Assets divided by Current Liabilities
Quick Ratio—Cash plus Accounts Receivable divided by Current Liabilities
Debt to Net Worth—Total Liabilities divided Net Worth
Accounts Receivable Turnover—Net Sales divided by Accounts Receivable
Inventory Turnover—Cost of Goods Sold divided by Inventory
Accounts Payable Turnover—Cost of Goods Sold divided by Accounts Payable
The ratios by themselves do not provide much information. It is important to compare the ratios calculated for the applicant to a standard. There are standard reference data bases available. The scheme should start its own data base and collect these ratios from all applicants. In the meantime, it may be able to purchase information on line that can be used for comparison.
The Credit Officer should calculate a breakeven ratio for sales as part of the credit analysis. The breakeven point is the level of sales necessary to cover all the fixed costs associated with a business. A level of sales below the breakeven amount would result in a loss. The breakeven point is determined by first dividing the Total Variable Expenses by Net Sales. The result of that calculation is subtracted from 1. Total fixed expenses are then divided by the result of the last calculation. The calculation is easier to visualize:

$$\frac{Total\ Fixed\ Expenses}{\left(1-\left(\frac{Total\ Variable\ Expenses}{Net\ Sales}\right)\right)}$$

It is important to analyze working capital to make sure the business has enough to pay its expenses, especially if there is a sales increase which results in an accounts payable increase. As a general rule, the amount of working capital that a company should have available is normal cash on hand plus Accounts Receivable plus the Cost of Inventory minus Accounts Payable.
If the cash flow is positive, the debt service coverage ratio is acceptable, and there is adequate working capital, then the Credit Officer should continue to the next part of the analysis.
If the cash flow is positive, but the debt service coverage ratio is less than 1.25, then the Credit Officer should review the case and decide if other factors overcome the reduced debt coverage ratio. The same analysis is appropriate if the ratios are a bit weak. If working capital is inadequate, the first step is to determine if a working capital line of credit is appropriate as part of the financing package and whether there is sufficient cash flow to make a slightly higher loan payment. If additional working capital solves the problem, the Credit Officer should recommend it as a condition for approval of the loan. If the applicant cannot afford

additional working capital and other factors of the application are weak, then the Credit Officer should recommend decline.
The next step is capital analysis.

Cash Flow (Capacity) Analysis – Without Financial Statements

(when financial statements ARE NOT available).
Cash flow analysis when financial statements are not available is possible if the applicant is able to provide other records that indicate the reliability of his/her cash flow. This is appropriate only for long term clients of the bank where the bank loan officer can verify payments by analyzing the applicant's checking account.
The lender should ask the applicant to provide an estimate of his/her monthly income, and a list of existing debts and assets.
The lender should gather such items as cell phone bills, utility bills, rent receipts, car payment receipts or any other routine (preferably monthly) cash items for the past two years.
The lender should then analyze the payment sequence for each item to ensure that the payments were made monthly and consistently.
A follow up phone call to the entity receiving the payments to ask if they are familiar with the client is important to prove the accuracy of the payments.
Based on this information, the lender may estimate whether there is enough available cash flow to service additional debt.
The next step for an application processed without financial statements is the capital analysis.

Capital (equity) Analysis

The Credit Officer should prepare an analysis of the retained earnings (Capital). If retained earnings have been growing over the past few years that means the business has been profitable or it has been receiving additional investment from investors. The officer should determine which situation exists. An increasing net worth due to profits is a positive situation. An increasing net worth due to new investment is not necessarily bad but should be investigated to determine why the additional capital was paid in to the business. If the equity is negative, that means the business has been losing money. Only in very rare cases is it appropriate to approve a guarantee for an applicant that has a negative net worth. An example would be a business that just received a patent that will give them an exclusive market for an extended period of time or a company that has developed an innovative new product that is now ready for market. There must be some new factor that will overcome the past losses.

Collateral Analysis

The collateral should be analyzed to determine what items are available and how many other lenders may have a prior claim to the collateral. A first lien is the best lien position; however, a subordinate lien position on valuable collateral is beneficial and should be taken.
The borrower should be asked if there is anyone (e.g. family member or business partner) who can provide a guarantee for all or some of the loan. It is important that any third-party guarantee be backed by collateral that can be foreclosed upon and liquidated with relative ease.
The Credit Officers should keep in mind that one of the main reasons that banks use the guarantee is to substitute for valuable collateral or a wealthy guarantor.
The amount of the loan should be compared to the amount the collateral to calculate the loan to value ratio. In conventional bank loans, this ratio typically is less than 100% meaning that

the value of the collateral is more than the amount of the loan. In most applications submitted for a guarantee, this ratio will be greater than 100% because the amount of the loan will exceed the value of the collateral. Although the collateral may not fully cover the loan amount, it is important that the borrower pledge all available collateral to demonstrate his or her commitment to the business.

If an appraisal is provided that includes both market value and liquidation value, it is appropriate to use liquidation value as that is the amount that could be received if the collateral was sold in a forced sale. This is different than the market value. The market value is the price that a seller would receive in a transaction where the seller was not forced to sell. In a liquidation sale, the buyer knows the seller must sell and typically offers a lower price.

Conditions

Conditions refers to two different parts of a loan which will generally be handled by the bank. The first set of conditions includes the interest rate, loan amount, tenor, and the use of proceeds. Even though the business may have adequate cash flow to repay the loan, the use of proceeds may not be appropriate for the borrower in the opinion of the credit officer. For example, a successful manufacturer may want to borrow money to open a restaurant, an industry where the owner has no experience. Another problem to watch out for is an applicant that is not asking to borrow enough money to cover the cost of the project or has planned for an inadequate amount of working capital.

The second aspect to reviewing the conditions of the loan has to do with the overall economy and the type of business. If the economy is contracting, some additional caution may be appropriate. If the economy is expanding, but the industry itself is contracting, some additional caution may also be appropriate. If the business has been marginally profitable, it may be appropriate to put a limit on owner's (and family member's) pay, how much money the owner can take out of the business, the maximum number of staff or other similar restrictions.

If the Credit Officer does not believe that the conditions provided by the bank are fully appropriate for the transaction, he/she should add or subtract conditions as necessary.

Annex 3:17 Exclusion List

The following project activities are not eligible for financing because they would either trigger additional Safeguards Policies or contravene the safeguards parameters of the program with World Bank by triggering additional policies; or, because they are listed on the World Bank Group Exclusion List.

Activities excluded due to additional policy triggers:

- Projects that would be classified as Category A (Very High Risk) under the World Bank OP/BP 4.01
- Projects that would involve conversion or degradation of critical natural habitats
- Projects that would directly or indirectly involve the construction of a dam greater than 10 meters in height or the use of water from a dam greater than 10 meters in height
- Projects on international waterways
- Land acquisition that would involve involuntary resettlement or land acquisition [32]

Activities excluded due to WBG Exclusion List:

- Those that are illegal under country laws, regulations or ratified international conventions and agreements
- Weapons and munitions
- Alcoholic beverages (excluding wine and beer)[33]
- Tobacco[34]
- Gambling, casinos and equivalent enterprises[35]
- Wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)[36]
- Radioactive materials[37] or unbounded asbestos fibers[38]
- Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest[39]

---

32 Investments will not be financed that trigger OP 4.12, which have a direct economic and social impacts through the: (1) involuntary taking of land resulting in relocation or loss of shelter, loss of assets or access to assets, or loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (2) involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of the displaced persons.

33 This does not apply to companies for which the operations/activities related to these criteria comprise less than 10 percent of companies total annual revenue

34 This does not apply to companies for which the operations/activities related to these criteria comprise less than 10 percent of companies total annual revenue

35 This does not apply to companies for which the operations/activities related to these criteria comprise less than 10 percent of companies total annual revenue

36 www.cites.org

37 This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where it can be demonstrated that the radioactive source is to be trivial and/or adequately shielded

38 This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is <20%.

- Polychlorinated biphenyl compounds (PCBs, a class of synthetic organic chemicals)
- Pharmaceuticals subject to international phase outs or bans[40]
- Pesticides/herbicides subject to international phase outs or bans[41]
- Ozone depleting substances subject to international phase out[42]
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length
- Transboundary trade in waste or waste products[43], except for non-hazardous waste destined for recycling
- Persistent Organic Pollutants (POPs)[44]
- Non-compliance with workers fundamental principles and rights at work[45]
- Significant degradation of a National Park or similar protected area[46]
- Real estate speculation

If any of the MSME activities fall under the above list, then they are not eligible to participate in the DRF because they are either illegal or represent unacceptably high E&S risk.

39 Primary forest is defined as relatively intact forest that has been essentially unmodified by human activity for the previous 60 to 80 years; and Tropical moist forest is generally defined as forest in areas that receive not less than 100 mm of rain in any month for two out of three years and have an annual mean temperature of 24^0 C or higher.

40 Pharmaceutical products subject to phase outs or bans in United Nations, *Banned Products: Consolidated List of Products Whose Consumption and/or Sale Have Been Banned, Withdrawn, Severely Restricted or not Approved by Governments*. (Last version 2001, www.who.int/medicines/library/qsm/edm-qsm-2001-3/edm-qsm-2001_3.pdf)

41 Pesticides and herbicides subject to phase outs or bans included in both the Rotterdam Convention (www.pic.int) and the Stockholm Convention (www.pops.int).

42 Ozone Depleting Substances (ODSs) are chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes'. The Montreal Protocol lists ODSs and their target reduction and phase out dates. The chemical compounds regulated by the Montreal Protocol includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents. (www.unep.org/ozone/montreal.shtml).

43 Define by the Basel Convention (www.basel.int).

44 Defined by the International Convention on the reduction and elimination of persistent organic pollutants (POPs)(September 1999) and presently include the pesticides aldrin, chlordane, dieldrin, endrin, heptachlor, mirex, and toxaphene, as well as the industrial chemical chlorobenzene (www.pops.int)

45 Fundamental Principles and Rights at Work means (i) freedom of association and the effective recognition of the right to collective bargaining; (ii) prohibition of all forms of forced or compulsory labor; (iii) prohibition of child labor, including without limitation the prohibition of persons under 18 from working in hazardous conditions (which includes construction activities), persons under 18 from working at night, and that persons under 18 be found fit to work via medical examinations; (iv) elimination of discrimination in respect of employment and occupation, where discrimination is defined as any distinction, exclusion or preference based on race, color, sex, religion, political opinion, national extraction, or social origin. (International Labor Organization: www.ilo.org)

46 In addition to in-country designated areas, other areas include: natural World Heritage Sites (defined by World Heritage Convention, http://whc.unesco.org/nwhc/pages/doc/main.htm.), United Nations List of National Parks and Protected Areas, designated wetlands of international importance (defined by RAMSAR Convention, www.ramsar.org), or selected areas (e.g., strict nature reserves/wilderness areas, natural parks, natural monuments or habitat/species management areas) defined by IUCN (International Conservation Union, www.iucn.org).

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 in USD, the currency in which the fund provided)	Amhara	03
4111	Cash at Bank Birr IDA	Oromia	04
4112		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	Revenue from IDA (Withdrawal Application)		
1002	Foreign Exchange Gain - IDA		
1003	Direct Payment		
1004	Special Commitment		
6000-6999	Expenditure		
6001-6100	Capital Expenditure		
6001	Collateral Registry System (turnkey 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

No. ....

TIN:………

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 …………………………..

<u>Distribution</u>

Original - Accounts

Copy - Pad

Annex 5.4

Small and Medium Enterprises Finance Project

Cash Payment Voucher

No. ....

Date ....

Paid To ……..…………………………………………………

Amount in Figure Birr ……………….

Amount in Words Birr ……………………………....………

…………………………………………………

Purpose ……………………………………………………….

……………………………………………………….

Documents attached ……………

For Accounting Use only

Code number		Description	Debit		Credit	

Prepared by .... Approved by ....

Receiver's Name ....

Signature..........................

<u>Distribution</u>

Original - Accounts

Copy - Pad

Annex 5.5

Small and Medium Enterprises Finance Project

Journal Voucher

No. ....

Date. ....

Code Number		Description	Refer.	a. ebit Amt.		Credit Amt.	
		Total					

Prepared by........ .... Approved by .... Posted by ....

<u>Distribution</u>

Original - Accounts

Copy - Pad

Annex 5.6

Small and Medium Enterprises Finance Project

Bank book

Page No.............

Month ……………………Year……………..

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 ....
Signature ....
Date ....

Controller's Name..............................
Signature.......................
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 5.12

Small and Medium Enterprises Finance Project

Travel Expenses Claim Form

Date..........................

Name .... Position .... Daily Per Diem...........

Place of Travel ....
Purpose of the Travel ....
....
Date of Departure....................... Date of Return ....
Total days........................

<u>Expenses:</u>

Per Diem	....
Fuel and repairs	………………..............
Others (specify)	………………………...
Total expenses	═══════════════

Amount in words...
....

Advance Received……………....
Additional Claim ....
Refunded to the project……………….....

I, the undersigned, acknowledge and affix my signature that all the above details are correct and true.

Name..........................

Signature.....................

Checked by .... 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....................................

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					
	Goods	Works	Services	training	Operating cost	Total expenditure
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 ……………………………..

	Birr	Birr
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		

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**	**Total**
Bank and Account No.:		
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)		

6. Net advances to be accounted for (3+4+5)			
7. Closing balance at end of current reporting (as of (Designated Account Bank statement attached)			
7.1 Designated Account			
7.2 Project Bank accounts			
7.4 Total			
8. Expenditures reported for current reporting period (only expenditures paid from Designated Account & project bank account)			
9. Total Advances Accounted for (7+8)			
10. Applications submitted but not yet credited to DA			
11. Difference (if any) 6-9-10			
Approved by:			

Annex 5.16

TERMS OF REFERENCE FOR AUDIT
For SME financing project implemented by FeSMMIDA

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 byte 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.

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 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[47];;

(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.

---

47 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 Governmer civil servants are still working for the Government when t 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 em The government should not be paying consulting fees to s payroll. A government employee may take a leave of absence (wit to work in another sector and be paid consulting fees by tl government/project. The General conditions for hiring Government officials and civil servants under consulting (in Bank financed projects** are set forth in para . 1.11(d) Consultant Guidelines. The Government officials and civi cannot be hired under any circumstances by the agency fo they previously worked, or if their employment would cre conflict of interest. When hired as individual consultants, would have to be on leave without pay for the expected du their consultant contract before signing it. When member team of a consulting firm, they would have to be on leave 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 re for actual cost reimbursement accommodation but not for sum hotel allowance; and receipts required for incidental (Gasoline purchased for personal vehicles are not reimburs
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 ren 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 5.18 Performance Appraisal Form – SMEFP Additional Finance staff

The performance evaluation of SMEFP-AF staff is composed of the work performance achieved by employee and work behavior of the employee. The work performance mainly focuses on the volume and quality of work as well as the ability of the employee to use different technical and managerial techniques to achieve result. The work performance constitutes 60% of overall performance evaluation result and carried out by the employee's immediate supervisor. Behavior-based employee evaluation focuses on the employee's characteristics related to work. Behavioral evaluation constitutes 40% of overall performance evaluation (20% by supervisor, 10% by peer and 10% self-evaluation).

I. Employee's Work Performance Evaluation

Period: From.........................To.........................

Name	
Position	
Experience	

Appraisal Completed by	
Position	

5 = substantially exceeds requirements
4 = exceeds requirements
3 = meets requirements
2 = partially meets requirements
1 = does not meet most requirements

No.	Performance indicators *(Consider each duty, responsibility noted in job description)*	**Rating** (✓)				
		5	4	3	2	
1	KNOWLEDGE OF THE WORK: *(Necessary knowledge of the elements of work assignments)*					
2	QUALITY OF WORK: *(The extent to which the work meets the required or expected standards for quality)*					
3	QUANTITY OF WORK: *(The progress made on tasks that result in the expected quantity of work, or the expected outcome and time frame for a particular task)*					
4	TIME MANAGEMENT: *(The ability to manage time effectively)*					
5	ADAPTABILITY: *(The capacity to adapt to new or changing situations)*					
6	INITIATIVE: *(The capacity to undertake and perform job duties independently, but with appropriate and responsible usage of supervisory support)*					
7	DEPENDABILITY: *(Reliability in following assigned work schedules and assignment completion)*					

8	DECISION-MAKING: *(The ability to make timely, perceptive, and sound decisions)*					
	Average Rate ______________					

Comments

Employee's Strength: ____

____

Employee's Areas for Improvement: ____

____

Additional Comments (Evaluator): ____

____

Significant Change since Last Appraisal: ____

____

Employee's Comment: ____

____

Recommendations: ____

____

Employee Signature____ Date_____________

(Employee signature indicates that this appraisal information was shared and discussed with employee and supervisor, and that employee is informed of all items documented. IT DOES NOT NECESSARILY INDICATE AGREEMENT WITH THE SPECIFIC CONTENT).

Evaluator Signature______________________________________ Date_________________

II. Employee's Work Performance Evaluation

Period: From........................To........................

Name	
Position	
Experience	

Name of Evaluator *(optional)*	
Role of the Evaluator *(Please check one of the boxes)*	Peer ☐ Self ☐

5 = substantially exceeds require
4 = exceeds requirements
3 = meets requirements
2 = partially meets requirements
1 = does not meet most requirem

	Evaluation Criteria	**5**	**4**	**3**	**2**	
	Communication					
1	Communicates well orally and in written-form.					
2	Displays good listening skills					
3	Shares information freely with others, customer handling, effort and effectiveness in working with stakeholders.					
	Teamwork					
4	Attitude towards team work, willingness and commitment to cooperate with teams and supervisor's demand, Tendency to accept feedback and use it for improvement and innovation of project activities					
5	Respect office/ work place attendance for team assignment and regular work					
6	Contribute positively to team, is friendly and easy to work with					
7	Help define team roles to maximize output					
	Personal and Professional Integrity					

8	Present a positive image to outsiders					
9	Has high professional and ethical standards					
10	Responsibility for handling project assets effectively and efficiently.					
	Average Rate ____________					

Signature of the Evaluator ___________________

Annex 6.1

RESULTS FRAMEWORK AND MONITORING
FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA: SMEFP – Additional Finance

Project Development objectives (PDO): To increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic

Result Indicators	***Baseline***	**Intermediate Targets (cumulative)**				***Source of Information***	***Data collection Tools/ Methods***	***Frequency***	***Responsibility for data collection***	***Description***
		Yr1	***Yr2***	***Yr3***	***End target***					
Project Development Objective Indicators by Objectives/ Outcomes										
Volume of Financial Support to SMEs under the credit facility and DRF (Amount in US$).	US$ 218m	US$ 300m	US$ 390m	US$ 480m	US$ 548m	DBE, Participating Commercial Banks and Microfinance institutions, leasing companies, SMEFP-AF clients, stakeholders	Reports	Monthly, Quarterly, Annual	PMT/ DBE	This indicator captures the financing facilitated from PFIs to target beneficiaries (i.e. SMEs) from both leasing and lending.
Number of SMEs Reached with Financial Services under the credit facility and DRF (Number)	1,452	2,000	2,800	3,700	4,200	DBE, Participating Commercial Banks and Microfinance institutions, leasing companies, SMEFP-AF clients, stakeholders	Reports	Monthly, Quarterly, Annual	PMT/ DBE	This indicator is designed to include all enterprises that are direct recipients of loans and leases facilitated by project.
Portfolio Quality under the credit facility (Percentage)	6%	8%	7%	6%	5%	DBE, Participating Commercial Banks and Microfinance institutions	Reports	Annual	PMT/ 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.
Beneficiaries reached with financial services (CRI, Number)					2,152	DBE, Participating Commercial Banks and Microfinance institutions	Reports	Annual	PMT/ DBE	

Project Development objectives (PDO): To increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic										
Result Indicators	***Baseline***	**Intermediate Targets (cumulative)**				***Source of Information***	***Data collection Tools/ Methods***	***Frequency***	***Responsibility for data collection***	***Description***
		Yr1	***Yr2***	***Yr3***	***End target***					
Number of SMEs served with business development service (Number)	218				1,500	FeSMMIPA and BDS Providers	Reports	Monthly, Quarterly, Annual	PIU/FeSMMIPA	Indicator captures the number of eligible SMEs that receive training and other services as part of the BDS program.
Intermediate Results Indicators										
Number of Loans/ Leases disbursed to SMEs	1,853	2,400	3,000	3,500	4,000	DBE, Participating Commercial Banks and Microfinance institutions	Reports	Monthly, Quarterly, Annual	PMT/ DBE	
Collateral Registry Operationalised (Yes/No)	No				Yes	NBE	Reports	Annual	PIU/ FeSMMIPA/ NBE	
Strengthened capacity of DBE for risk assessment and management of innovative financial products. (Yes/No) (Yes/No)	No	Yes	Yes	Yes	Yes	DBE	Reports	Annual	PMT/ DBE	
Percentage of women-owned SMEs benefiting from the credit line and DRF (Percentage)	14				28	FeSMMIPA and BDS Providers	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	
Insolvency Regime revised and approved by the Parliament (Yes/No)	No				Yes	NBE	Reports	Annual	PIU/ FeSMMIPA/ NBE	
Citizen Engagement Survey Conducted (Yes/No)	No				Yes	FeSMMIPA and BDS Providers	Reports	Annual	PIU/ FeSMMIPA	

Project Development objectives (PDO): To increase access to finance and build firm capabilities for eligible small and medium enterprises in Ethiopia, with a focus on responding to the COVID-19 pandemic										
Result Indicators	***Baseline***	**Intermediate Targets (cumulative)**				***Source of Information***	***Data collection Tools/ Methods***	***Frequency***	***Responsibility for data collection***	***Description***
		Yr1	***Yr2***	***Yr3***	***End target***					
Number of SMEs that received training through a BDS Program under the project (Number)	218				1,500	FeSMMIPA and BDS Providers	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	
Number of women owned SMEs that received business development service (Number)	70				500	FeSMMIPA and BDS Providers	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	
Number of supported SMEs that subscribed to the e-commerce platform (Number)	0				100	FeSMMIPA and EPS	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	
Business Information Center launched (Yes/No)	No				Yes	FeSMMIPA	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	
Number of federal and regional investment and trade support instiution staff trained on export promotion, business diplomacy ..etc (Number)	0				50	FeSMMIPA and BDS Service Providers	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	
Private Participation model for management and operation of SME market and production sites developed (Yes/No)	No				Yes	FeSMMIPA and EPS	Reports	Monthly, Quarterly, Annual	PIU/ FeSMMIPA	

Annex 6.2: 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 6.3: Sample Activity Planning Template for procurement of goods and works and selection of consultants

6.3a 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.*

6.3b 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.*

6.3c 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 6.4: SMEFP-AF 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-AF project. An organized and effective registration system will be critical to the success of SMEFP-AF activities. The registration process will enable the project to target activities to eligible SMEs, and to ensure that SMEFP-AF 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-AF project.

II. Process

SMEs interested in accessing SMEFP-AF 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 FeSMMIPA, 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-AF 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 FeSMMIPA 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-AF clients that they serve, and their IDs. DBE and FeSMMIPA will compile reports from PFIs and BDS, respectively,

III. Sample ID Assignment Technique:

Institution[48]	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-AF 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.

[48] These institutions are included for illustration purposes only, and do not represent selected PFIs or BDS providers

Clients Registration Form for Loan/Lease[49]		
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-AF 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 owners: 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 | ___ ___ ___ ___ ___ ___ ___ ___ ___ ___|	

49 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).

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: 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

<table>
<tr><th colspan="2">Clients Registration Form for BDS</th></tr>
<tr><td>s23</td><td>Name of the BDS service recipient firm:</td></tr>
<tr><td>s24</td><td>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>
<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 digits</th></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>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
</table></td></tr>
<tr><td>s25</td><td>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</td></tr>
<tr><td>s26</td><td>TIN Number</td></tr>
<tr><td>s27</td><td>Ownership Structure of the Firm| ___ | Code: 1 = Private limited company 2= Partnership 3= Sole proprietorship 4=cooperative 5=other(specify)______________________</td></tr>
<tr><td>s28</td><td>Number of owners: Total:| ___ ___ | Female :| ___ ___ | Male :| ___ ___ |</td></tr>
<tr><td>s29</td><td>Is the firm owner running the firm? | ___ | Code: 1=yes, 2=No</td></tr>
<tr><td>s30</td><td>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</td></tr>
<tr><td>s31</td><td>Address of the firm:
a. Region | ________________________________| b. Sub-city | ____________________ |
c. Woreda | ________________________________| d. kebele | ____________________ |
e. Local name | ________________________________| f. House no. | ____________________ |</td></tr>
<tr><td>s32</td><td>Telephone| Mobile | ___ ___ ___ ___ ___ ___ ___ ___ ___ ___ |: Land line | ___ ___ ___ ___ ___ ___ ___ ___ ___ ___|</td></tr>
<tr><td>s33</td><td>How many employees does this firm have currently?
Total: | ___ ___ | Male: | ___ ___ | Female :| ___ ___ |</td></tr>
<tr><td>s34</td><td>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</td></tr>
<tr><td>s35</td><td>List out the major products that this firm produces? (maximum three) __________________ ______________________</td></tr>
<tr><td>s36</td><td>In what year did this firm begin operating? Year:| ___ ___ ___ ___ |</td></tr>
<tr><td>s37</td><td>Startup capital in ETB: | __________________ |Birr</td></tr>
<tr><td>s38</td><td>Annual Earning in ETB: Year 2015: | ___________________ | birr & Year 2016: | _________________| birr</td></tr>
<tr><td>s39</td><td>Have this firm received BDS service over the last three years? | _______| Code: 1=yes, 2=No</td></tr>
</table>

Annex 6.5: Small and Medium Enterprises Finance Project
Monthly Progress Report Template
(by Regional SME Development Agencies)

Report Month and Year: _______________

Region: _________________________

1. Registration of SMEFP-AF Members: Current Month ____________ Cumulative __________

   Please provide the registration details by sector and by city.

2. Business Development Services: ___________ __________
   Please describe the type of business development services and indicate the name of BDS provider(s). Also provide data by sector, type of BDS and city.
   ____
   ____
   ____
3. Project advocacy: Please describe whether events such as workshops and meetings are organized and the number of potential clients that had access for the information about the project.
   ____
   ____
4. SMEFP-AF clients' loan status: Please describe how many (current and cumulative) SMEFP clients received a loan by sector, by type of credit line facility (working capital and/or lease) and what challenges they faced. ______________________________________
   ____
   ____
5. Other activities performed: ____
   ____
   ____
   ____
6. Major Challenges (if any)
   ____
   ____
7. Recommendation (if any)
   ____
   ____

Note: (i) Provision of monthly data on registration, business development services and SMEFP-AF clients' loan is mandatory until computerized central database system is developed and installed.

(ii) Please use extra pages if this page is not sufficient for the monthly report.

Annex 6.6

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-AF 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