

Small and Medium Enterprise Finance Project (SMEFP) Background

Ethiopian Enterprise Development /EED/

Small and Medium Enterprise Finance Project (SMEFP)

Main areas of support to SME Manufacturing sector:-

- *Capital goods lease finance*
- *Working capital loan*
- *Business development services*

The development of the small and medium manufacturing industry sector plays an important role in the transition to industrialization and the building of a strong industry led national economy.

Efforts to save foreign exchange by encouraging import substitutes and promotion of exports are a major focus of the Ethiopian government. Moreover, the manufacturing sub-sector, which ensures the growth of the sector as a source of sustainable employment, has been given a lot of attention by the government.

Ethiopian Enterprise Development /EED/ formerly known as the Federal Small and Medium Manufacturing Industry Promotion Authority /FSMMIPA/ is represented and mandated to function in coordinating the development of the sector at all levels of administrative regions and the two city administrations, Addis Ababa and Dire Dawa.

One of the efforts made by the Ethiopian Enterprise Development is supporting the implementation of the Small and Medium Enterprise Finance Project (SMEFP) by hosting the project implementation unit.

The concept of the Small and Medium Enterprise Finance Project /SMEFP/ originated from a study conducted in 2014 on the financing of small and medium enterprises (SMEs) in Ethiopia which discovered the phenomenon called “missing middle” where small and medium enterprises are more credit constrained than micro and large enterprises.

The study suggested a solution:

- Strengthen the financial capacity of microfinance institutions (MFIs) and provide them with training to serve small and medium enterprises with high credit demand.
- Commercial banks should also review their lending policy and focus on supporting small and medium enterprises in addition to the financial support of large enterprises, which should be based on the existing lending needs of small and medium enterprises.

Based on this study, the Small and Medium Enterprises Finance Project was realized through an agreement between the Government of Ethiopia and the World Bank. Accordingly, the loan agreement was signed between the Government of Ethiopia and the World Bank on 15 June 2016.

The Ministry of Finance, on behalf of the Government of Ethiopia, is the main signatory of the loan and has delegated the implementation of the project to the Development Bank of Ethiopia and the Federal Small and Medium Manufacturing Industry Promotion Authority (Currently known as Ethiopian Enterprise Development).

The project has four components. The Project Coordination Office under the Ethiopian Enterprise Development /EED/ is responsible for the overall coordination role and direct implementation of the second, third and fourth components.

Earlier, the project coordination office was established Under the Federal Ministry of Industry, and due to a structural change agreement with the World Bank, the project has now opened an office under the Ethiopian Enterprise Development.

Project Objectives

The SME finance project is to increase access to finance for eligible SMEs in Ethiopia based on eligibility criteria stipulated in this project implementation manual.

Total budget and source of the project:

The total budget for the parent project is \$ 276 million, of which the International Development Association /IDA/ has funded \$ 200 million and the remaining \$ 76 million is provided by the European Investment Bank /EIB/.

The parent project has been planned to be implemented from mid-2017 to August 2021, taking into account the impact of COVID-19 outbreak on the small and medium enterprises in 2020, the World Bank approved an additional \$200 million and extended the project for another three years.

The project development objective of the additional finance 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.

Project beneficiary

The project beneficiaries will be eligible SME enterprises operating in the manufacturing and agro-processing industries, construction, and tourism. The project also benefited the participating financial institutions (lease companies, Commercial banks, and MFIs), local business development service providers, and government agencies like DBE and NBE.

Project life time

The implementation period of the parent project covers five years (2017-2022). The additional finance will be executed in the next three years (2022-2025).