Opening Doors: A Performance Evaluation of the Development Credit Authority (DCA) in Ethiopia

Credit: Courtesy of Leila Ahlstrom, USAID Development Credit Authority

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Acronyms

AGP-AmDe	Agricultural Growth Program-Agribusiness and Market Development
AGP-LMDP	Agricultural Growth Program-Livestock and Market Development Program
BDS	business development services
BG	bond guarantee
CBB	Construction and Business Bank
CBE	Commercial Bank of Ethiopia
CEO	Chief Executive Officer
CMS	DCA's Credit Monitoring System
DBE	Development Bank of Ethiopia
DCA	Development Credit Authority
GDP	gross domestic product
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan
HABP	Household Asset Building Program
LG	loan guarantee
LMDP	Livestock and Market Development Program
LPG	loan portfolio guarantee
MFI	microfinance institution
MoF	Ministry of Finance
MSE	micro- and small enterprise
MSMEs	micro-, small and medium enterprises
NBE	National Bank of Ethiopia
NPL	non-performing loan
PG	portable guarantee
PHSP	Private Health Sector Program
SDG	Sustainable Development Goal
SHOPS	Strengthening Health Outcomes through the Private Sector
SSA	Sub-Saharan Africa
SMEs	small and medium enterprises
TA	technical assistance
TIN	Tax Identification Number
USAID	US Agency for International Development
VAT	value-added tax
VP	Vice President

Executive summary

Lending to small and medium enterprises (SMEs) in Ethiopia, in new sectors to new clients, while offering new lending products, is perceived by banks to be riskier than lending to large enterprises and known borrowers, using traditional forms of finance. At the same time, microfinance institutions (MFIs) have done an adequate job of reaching micro- and small enterprises, creating a situation commonly described as 'the missing middle'. Asymmetric information, inadequate expertise and a lack of incentives to expand balance sheets due to the current market environment together mean that banks overwhelmingly base their lending decisions on collateral coverage and target sectors with lower perceived risk. The collateral rate (compared to the loan size) required by banks in Ethiopia is much higher than that required in many of the countries in Africa, Asia and Latin America. These features have discouraged SME owners from pursuing bank loans, especially since the preferred form of collateral for first-time borrowers is a primary family residence.

The Development Credit Authority (DCA) in Ethiopia offers partial credit guarantees that cover either a single loan or a loan portfolio in order to motivate private commercial banks to lend to SMEs, new sectors or new clients. In Ethiopia, DCA has focused mainly on providing loan portfolio guarantees (LPGs) for firms in the agricultural value chain, health sector, and to diaspora and women entrepreneurs. In offering partial credit guarantees to banks that cover loans in default, DCA aims to reduce collateral requirements for borrowers, incentivize banks to take more risk, create demonstration effects if the new clients are successful, and ultimately help spur private-sector-led economic growth in the countries where it operates.

This performance evaluation seeks to understand the effectiveness and impact of the DCA program in Ethiopia, both for the borrowers, in terms of improved access to credit and business profitability, and for partner banks, in terms of improved lending practices that more effectively reach SMEs in targeted sectors. Attempts are also made to assess the contribution of technical assistance (TA) providers (which are partner US Agency for International Development [USAID] projects) in building the capacity of partner banks and DCA borrowers. The outcome and impact of the DCA program are assessed along six main dimensions: appropriateness of the design; utilization; credit additionality (i.e. the degree to which the program expands access to finance for target borrower groups relative to what we could expect in the absence of the program); financial sustainability; program sustainability; and impact on the borrowers. The evaluation focuses on primary and secondary information from key stakeholder interviews.

Appropriateness of the design

Overall, DCA guarantees in Ethiopia were found to have been effective in meeting its primary objective of incentivizing commercial lenders to serve segments and sectors targeted by the partial guarantees. There is near consensus among both surveyed borrowers and lenders that the DCA guarantee, while less effective in altering the terms of loan agreements in the form of reduced collateral requirements, successfully 'opened the door' to previously under-served clients by prioritizing their applications. However, in the current market environment, serious questions were raised about the sustainability of the loan portfolio guarantee design, while the need to reconsider various aspects of the DCA model in the Ethiopian context also became evident.

DCA's primary objectives are to foster increased access to capital and capital market development. By not crowding out market-driven interventions by providing subsidized credit or other below-market financial products and services, DCA attempts to foster competitive behavior among participating banks (by changing their institutional attitude towards lending to target sectors and segments) and supports a sustainable deepening of the financial sector, which ensures the delivery of loans to those types of borrowers after the termination or expiration of the guarantee. DCA partner banks are expected to benefit from the guarantee product by assisting them in opening up new markets for profitable

commercial operations. On top of the guarantee, DCA emphasizes the importance of technical assistance to both partner banks and borrowers, normally provided by parallel USAID projects that are operational in the country. This assistance was found to be of high quality on average. By reviewing many credit guarantee schemes implemented by development partners in different countries and the experience in Ethiopia, the team found that, overall, the DCA model is more effectively designed and can serve as a benchmark for other credit guarantee schemes in Ethiopia.

However, the largest exogenous challenge facing the DCA program in Ethiopia is the shortage of commercial bank liquidity, driven by the large demand for loanable funds due to recent high economic growth rates, lack of foreign competition, and the requirement since April 2011 for commercial banks to purchase low-yield Development Bank of Ethiopia (DBE) bonds worth 27 percent of the principal value of all loans made. The incentive of private commercial banks to seek out new and perceived higher-risk clients is therefore greatly diminished, as is the ability of DCA to alter this dynamic. For example, some current partner banks report little interest in continuing to support the agriculture sector given the higher perceived risks. *In the current commercial lending environment, the design of the DCA loan portfolio guarantee is becoming less relevant, although the program can still be effective at redirecting limited liquidity to target borrowers at the margin, which continues to be important for these SMEs.*

Utilization

USAID/Ethiopia began sharing risk under the Development Credit Authority in 2004, and has since signed 17 guarantee facilities through 2015 with seven private financial institutions and one private corporation. Since the initial guarantee in 1999 (under the Micro and Small Enterprise Development [MSED] authority), USAID/Ethiopia has facilitated more than US$96,309,045 in credit to SMEs in the agriculture and health sectors, at a cost of $9,621,444 – leveraging approximately $10 of private sector financing for every $1 of USAID funds obligated. As of March 2016, the cumulative value of current guaranteed loans and loan portfolios to the seven partner banks was US$90,604,045, while the total cumulative utilization was $47,369,550. To date, under the various DCA guarantees, a total of 316 beneficiaries accessed loans from banks. About 41.1 percent of the beneficiaries of DCA were engaged in trade/commerce, followed by agriculture (24.7 percent), the health sector (23.4 percent), and tourism (7 percent). Bank of Abyssinia extended about 30.4 percent of DCA-backed loans, followed by Dashen Bank (24.4 percent) and Nib International Bank (21.8 percent). Out of the total borrowers, only 8.5 percent were identified by partner banks as being female-owned businesses.

Of the 316 borrowers under DCA-backed loans, 37 percent were first-time borrowers. This compares with a global average of 22.7 percent, so Ethiopia has done comparatively well. Of the 117 first-time borrowers, 51.3 percent were engaged in establishing private facilities in the health sector, followed by the agriculture sector (25.6 percent), with tourism and trade/commerce tied at 10.3 percent. Nib Bank had the highest ratio of first-time borrowers (41.9 percent), followed by Dashen Bank (32.5 percent) and Bank of Abyssinia (12 percent).

The utilization rates are relatively high and demonstrate the value of DCA products

Although the utilization rate varied from bank to bank and depended somewhat on the age of the guarantee, the overall LPG utilization rate to date is 61.1 percent. Of expired guarantees, the utilization rate was just over 77 percent. These rates are relatively high overall and demonstrate the value that DCA products have offered to commercial banks and the effectiveness of the design in targeting under-served sectors and borrowers. The largest factor affecting the few instances of low utilization has been sector strategy shifts within partner banks. For example, both Dashen Bank and Bank of Abyssinia made the decision to shift out of the agriculture sector due to increased perceived risks, while the latter also no longer wishes to do business with diaspora borrowers for similar reasons. DCA products need to ensure the coherence of bank strategies with the objectives of DCA and the development objectives of the USAID Mission, as well as the durability of those strategies prior to making future agreements.

Courtesy of Leila Ahlstrom, USAID Development Credit Authority

A borrower under the DCA loan facility; this woman owns a building supplies store.

Credit additionality

There was a clear consensus among borrowers that DCA enabled them to access finance that they otherwise might not have been able to access, but these views ranged in degree. Some claimed that accessing finance without the DCA guarantee in place would have been 'unthinkable' for them. Others admitted that they 'probably could have' accessed finance without DCA, but felt that DCA reduced the time and inconvenience of obtaining finance. To a lesser extent, borrowers felt that DCA likely increased the amount of the loan that they were able to obtain as well as decreased the

required collateral. Our interviews with banks confirmed these beliefs as all claimed to prioritize DCA loan applications, often with documents being sent directly to a Vice President's office. All banks also claimed that the DCA guarantee generally enabled them to lower collateral requirements and/or increase the amount of the loan available, which also coincides with some of the borrowers' beliefs.

DCA guarantees have been comparatively successful in achieving credit additionality by lending to 117 first-time borrowers, or 37 percent of the DCA-backed loans. The senior executives of the partner banks understand that there is a strong need to extend loans to targeted segments and sectors in order to meet the country's growth and transformation objectives. Yet while some banks have a strategy to provide financial services to segments and sectors targeted under the DCA, others have no such formal strategy. There was a general agreement that DCA incentivized their banks to extend loans to the targeted sectors and sectors under the guarantee (e.g. SMEs in the agricultural value chain, private health service providers, women entrepreneurs, and diaspora), even though lending to these areas was perceived to be riskier and less profitable and also required additional staff time. Without DCA, the banks would likely have continued to lend to preferred and larger clients, especially exporters given the current foreign exchange premium. While DCA guarantee products do in fact often lower required collateral, in practice collateralization rates of loans under the DCA program often exceed 100 percent and normally run much higher depending on the type of collateral offered, normally the primary residence of smaller borrowers. Since DCA only pays claims on 50 percent of the remaining principal balance of a defaulted loan after collateral has been collected, when realized collateralization rates exceed 100 percent, DCA products have no real financial value when the bank is able to fully liquidate seized collateral.

In general it is the relationship with USAID, rather than the product itself, that is more highly valued by partner banks

Financial sustainability

Formal attempts were not made by partner banks to estimate the financial costs and benefits of implementing DCA-backed loans. However, i*n general, it is the relationship with USAID and its implementing partners, rather than the guarantee product itself, that is more highly valued, as many bankers did not consider the guarantee products to be profitable in and of themselves.* Partner banks enjoy USAID's ability: to offer technical assistance to qualified clients and refer them to the bank; to connect the bank with a wider universe of stakeholders; to offer capacity building to their institution; as well as the perceived prestige of working with USAID, which gives them a corporate social responsibility role that they can highlight.

Another way to estimate the financial sustainability of DCA guarantees is to compare the non-performing loan (NPL) ratio of the DCA-backed loans with the general portfolio of the bank, which are generally less than 2 percent. With the exception of Bank of Abyssinia, bank executives reported that the NPL ratio of DCA-backed loans and regular loans are about the same. The low default rate of DCA-backed loans can be attributed in part to increased oversight and risk management (putting in extra effort to support DCA borrowers), which has been consistently observed given most partner banks' clear preference for the program to be seen as successful. On the other hand, banks were consistently accused by borrowers of deliberately undervaluing their collateral, thereby increasing collateralization rates and greatly increasing the cost of default for borrowers. The low default rate could also reflect the fact that some DCA loan portfolio guarantees are not reaching the smaller and riskier SMEs. However, there are increasing indications that the NPL rate is increasing, especially in the DCA-targeted agricultural sector – due in large part to effects from the El Niño-influenced drought. Even so, many banks appeared to be reluctant to submit claims under DCA due to lack of understanding of the process, full collateralization, and worries about USAID's perception.

Program sustainability

Some partner banks reported that their overall SME portfolio increased as a result of the DCA-backed loans and that their targeted sector portfolio will continue to

Courtesy of Leila Ahlstrom, USAID Development Credit Authority

Ethio Chicken provides a good example of how a single DCA-backed loan guarantee can create employment for hundreds of people.

grow (e.g. Nib Bank in the health sector), indicating program sustainability. However, others felt as if they no longer needed to take perceived additional risks and indicated that they planned to exit DCA-targeted sectors (e.g. Bank of Abyssinia, Zemen Bank, and Dashen Bank in agriculture).

On top of perceived risk, lack of individual credit scoring systems, and inadequate methods to value collateral, *the lack of liquidity in the banking system is the main constraint faced by partner banks to offering finance to SMEs in the targeted sectors on a sustainable basis after the expiration of the DCA guarantee.* While real interest rates have risen recently, they cannot rise high enough to offset demand, creating a shortage of available debt financing, in turn leading to credit rationing. Banks have little appetite for accepting increased risk in this environment, and even complain that DCA covers only 25 percent of the principal value of a loan if half of that value is secured as collateral – an admission that they expect to assume as close as possible to zero risk. Another effect of credit rationing that was reported has been a rise in corrupt practices. Since access to finance is scarce, some potential borrowers (including DCA beneficiaries who freely admitted such) resorted to offering bribes to credit evaluators in exchange for a more favorable estimate of their collateral. Such reports were anecdotal, however, and it is not clear how widespread such practices are in the system. Other borrowers reported that having their loan under the DCA program made them feel less compelled to offer bribes.

Partner banks demonstrated interest in developing new financial products and methods of collateralization to support SMEs or the new borrowers under the DCA facilities. However, progress on this front was uneven. Property and in particular primary family residences continue to serve as the main source of collateral for smaller and first-time borrowers. Offering primary residences as collateral normally means that collateralization rates exceed 200 percent of the value of the loan. It is also a significant deterrent to considering borrowing money for many people. Smaller borrowers reported that this was a large risk for them and put their families in a difficult situation.

Although there have been some attempts by partner banks to establish a separate SME lending unit, such units were generally not prioritized. All banks reported that they at least have a plan to establish a separate unit for SMEs and train their staff on SME financing.

Courtesy of Leila Ahlstrom, USAID Development Credit Authority

Bishoftu Farm Service Center has experienced support via a DCA-backed loan..

Impact on borrowers

There was a clear consensus among borrowers that access to finance was the most binding constraint to growing their businesses. Borrowers who were experiencing troubles with their business blamed the inadequate amount of finance that they were offered by the banks. Business and investment licensing was the second most cited constraint.

Accessing finance was found to be very important and effective at spurring business growth. *Most borrowers under DCA guarantees were experiencing success and, of these, all agreed that access to finance through support from the DCA facility was associated with significant profit increases, employment growth, and increased assets which would enable these firms to access additional finance.* Some borrowers have also reported that they built additional infrastructure and expanded their residential houses after accessing the DCA-backed loans.

In general, smaller borrowers seemed less concerned with interest rates and more concerned with the time and bureaucratic inconvenience in accessing finance and the limited amount of principal they could obtain. For most first-time borrowers, the entire process took well over one year, sometimes longer. Some of the small borrowers interviewed did not know without checking the interest rate they were paying on their current DCA-backed loan, and in fact appeared unconcerned with that figure. This was interpreted as indicative of the strong growth environment and high rates of return to capital in Ethiopia at this time. On the other hand, larger borrowers of DCA-backed loans appeared to worry less about the time and cost to access finance (likely because of a strong credit history and pool of assets) and much more about the rising interest rates they were paying on the facilities.

DCA attempted to target women beneficiaries through a guarantee to Bank of Abyssinia, which expired in

September 2015. While the high number of loans (29) and low default rate (just one claim) was encouraging, utilization never achieved a significant level (just 41 percent) and a number of the loans were to repeat borrowers, which may signal a continued hesitancy in lending to women-owned businesses. In general, women interviewed did not feel as if they were at a significant disadvantage for obtaining access to finance from commercial banks and reported levels of satisfaction with the DCA program that were similar to those of the men. However, one area of particular disadvantage that was highlighted was social relationships, especially with lenders, given that women have more cultural limitations on how they can interact with men, who are greatly overrepresented in the banking sector.

Since DCA borrowers were able to grow their businesses and improve profitability, DCA achieved its objectives of economic additionality and impact on borrowers

The unique experience of AGFlow Venture PLC (aka Ethio Chicken) in Mekelle is a good example of how a single DCA-backed loan guarantee can create employment opportunities for hundreds of people along a supply chain within a short space of time. The project created demonstration effects in a new sector and the larger-sized investment resulted in considerable spillover benefits for SMEs.

Overall, since DCA borrowers were able to grow their businesses and improve profitability, DCA achieved its objective in terms of economic additionality and impact on borrowers.

Evaluation recommendations

Going forward, there are issues that need concrete action to improve the effectiveness of the DCA program and address the financial needs of businesses in targeted segments and sectors. Recommendations are summarized as follows. USAID and its partners should:

- *Increase their scrutiny of LPG agreements given the current liquidity-constrained environment in Ethiopia*: The limitations of DCA products in the current environment should be recognized. Only if there is demonstrated availability of liquidity and a clear willingness to serve targeted clients should a new LPG be considered.
- *Insist on partner banks establishing a separate unit and dedicated staff for financing borrowers targeted under a guarantee:* One of the approaches to incentivize banks is linking the technical support of USAID to the would-be established unit and dedicated staff. To this end, the terms of the legal agreement between USAID and a partner bank could obligate the establishment of a specialized unit by that partner bank to support targeted borrowers.
- *Improve performance monitoring and consider impact evaluations*: Throughout the life of the DCA program, the only performance indicators gathered have been numbers of loans, size of loans, interest rates, size of collateral, numbers of first-time and women-owned borrowers (sometimes), and utilization rates. A more comprehensive results framework should be developed for future guarantees that includes, for example, variables such as changes in the bank's overall lending portfolio, average collateral reductions with respect to non-DCA-backed loans, and number of entrepreneurs and bankers trained in connection with the program. DCA should also actively encourage surveys of borrowers that would collect baseline data about their business and follow-up in order to collect impact-level data on variables such as changes in business and family income following access to finance. Partner banks should offer such baseline information about their clients and USAID implementing partners should follow up between one and three years after loan disbursement with a brief survey.
- *Support banks to change their collateralized lending approach*: Given the challenges of meeting the collateral requirements of banks, the absence of a collateral registry for movable assets, and ineffective enforcement of contracts in case of default, banks require technical support and incentives to implement different financing technologies such as small business credit scoring, financial statement

lending, relationship lending, factoring, asset-based lending, leasing, and fixed asset lending. USAID should use technical assistance providers to support efforts to move banks away from their preference for property as collateral.

- *Improve the quality of technical support and link it to concrete operational changes in the banks:* Partner banks perceived the existence of a moral hazard problem, as many borrowers believed that because their loan was under a USAID-backed program there must be a grant component, reducing incentives to repay the facility. Going forward, USAID technical assistance should ensure that general information about the DCA program is provided to borrowers and is clearly understood. Rather than providing one-off training to the banks, USAID should look to support banks to institutionalize training and improve the quality of internal bank training. The value addition and performance of the capacity-building support to banks and borrowers varied significantly from one TA provider to another. There is a need to share the experiences of the TA providers by discussing their experiences and challenges in regular workshops.
- *Improve the sustainability of business development services (BDS)*: USAID and other donors, which provide the majority of value-added services for DCA guarantees, are distorting the BDS market with the largely free services that they arrange for borrowers. Donors should focus on nurturing the local development of this market by working directly through local BDS providers and introducing cost sharing with borrowers, with a longer-term plan to phase out all subsidies.
- *Increase support for loan guarantees*: USAID should focus more on loan guarantees that have a clear potential to 'crowd in' private investment and make a relatively large impact in terms of spillovers that include employment growth, benefits to SMEs in the value chain, and demonstration effects in a new sector.
- *Address prohibited practices in the partner banks:* USAID will need to communicate with partner banks that such practices as paying bribes to loan officers will not be tolerated and could result in the immediate termination of the agreement. USAID also needs to increase communication with partner banks to ensure that they are aware of and in compliance with USAID rules and regulations, such as the provision of prohibited services.

1. Introduction

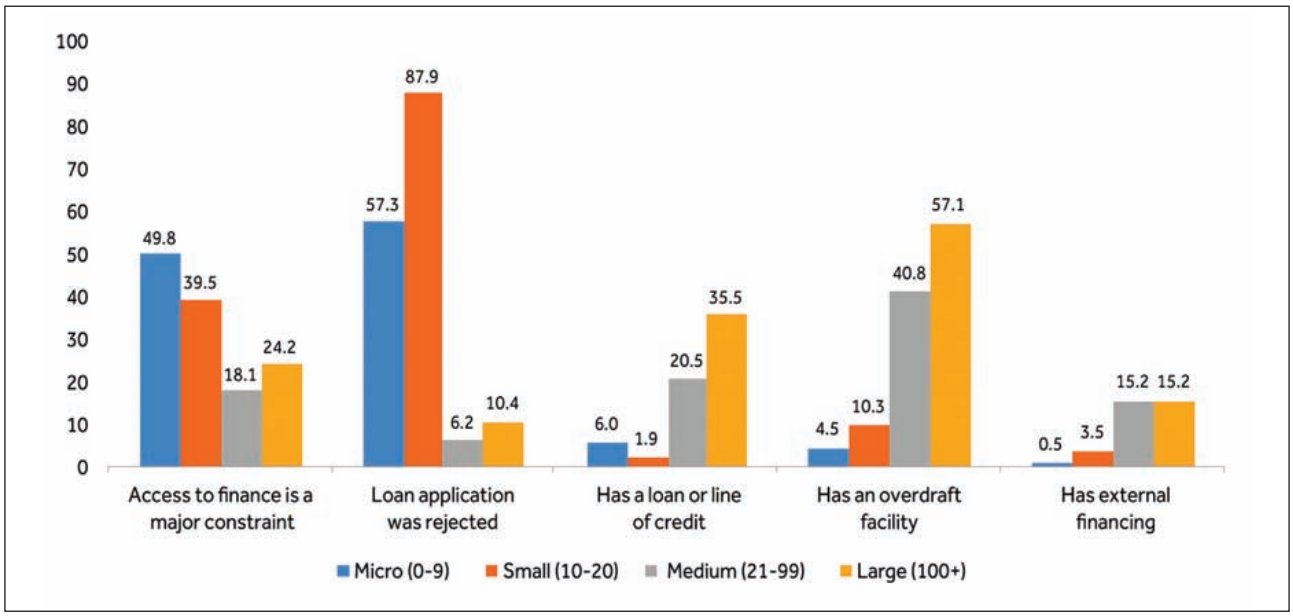
1.1 Statement of the problem

Micro-, small and medium enterprises (MSMEs) have emerged as important for socio-economic development and economic diversification in Ethiopia, often acting as key multipliers along the supply chain. Despite their importance, MSMEs, especially small to medium-sized firms, face a serious challenge compared to large firms when accessing finance from formal financial institutions. The share of small and medium enterprise (SME) lending to overall lending in Ethiopia is only 7 percent, among the smallest in Sub-Saharan Africa (SSA), as well as far below that of other developing economies (World Bank, 2014a). According to the same report, about 41 percent of microenterprises, 36 percent of small firms, and 29 percent of medium firms reported access to finance in Ethiopia to be a major constraint to daily operations, compared to SSA averages: 24 percent, 20 percent, and 16 percent respectively. Firms in Ethiopia that are credit constrained have sales growth that is 15 percentage points lower, employment growth that is 5 percentage points lower and labor productivity growth that is 11 percentage points lower than firms which are not credit constrained.

The same study also reveals that only 6 percent of microenterprises, 1.9 percent of small enterprises and 20 percent of the medium-sized firms had accessed a loan from formal finance providers. Moreover, among firms that applied for a loan or a line of credit, about 57.3 percent and 87.9 percent of applications submitted by micro and small firms respectively were rejected, while the rejection rates experienced by medium and large firms were 6.2 percent and 10.4 percent respectively (Figure 1). More recently, in the World Bank's Enterprise Surveys (2015), the number one identified constraint among the 848 surveyed firms was access to finance, with over 40 percent of firms choosing this as their biggest obstacle. The World Bank's *Doing Business* report (2016) also demonstrates just how far behind Ethiopia is compared to its neighbors (Figure 2).

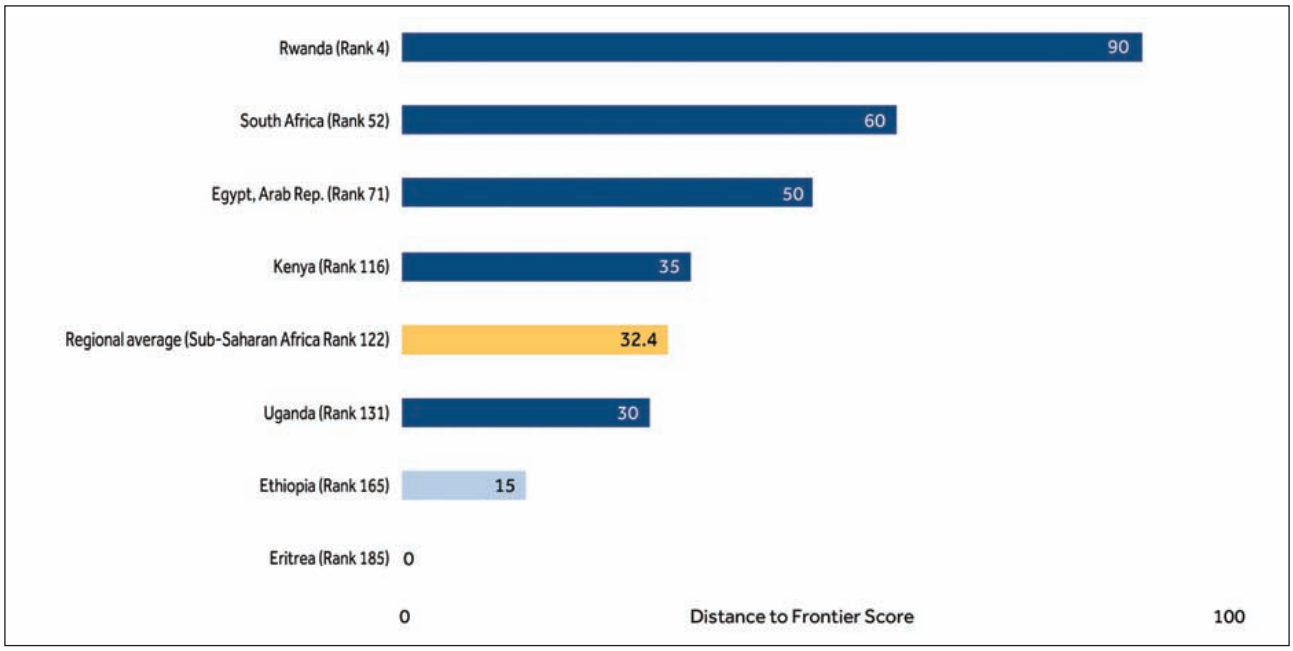
Wolday and Tassew (2015) reveal that lack of access to finance and limited government support to access land or buildings to produce and market the products of micro- and small enterprises were the key challenges affecting growth and expansion. The same

Figure 1 Access to finance by firm size



Source: World Bank Enterprise Survey 2011.
Note: Micro firms, those with less than ten employees, were only surveyed in Addis Ababa. 'Loan application' refers to the most recent application submitted within the last fiscal year.

Figure 2 Ease of getting credit ratings and rankings (2015)



Source: World Bank Doing Business 2016.
Note: The number in parentheses represents the country's rank in terms of ease of getting credit across all countries included in the study. Higher numbers represent a worse ranking for ease of access to credit. The distance to the frontier score shows how far on average an economy is at a point in time from the best performance achieved. The measure is normalized to range between 0 and 100, with 100 representing the frontier/ best performance.

study shows that about 71.3 percent and 70.1 percent of the micro- and small enterprises used savings/retained earnings to meet their working and investment capital needs, respectively, while only about 8.7 percent of the owners had access to formal finance providers. However, the proportion of these small enterprise owners who used borrowing from formal financial institutions was relatively higher compared to the microenterprise owners. Smaller firms appear to face more serious financial constraints compared with those that are larger, which is attributable to factors including higher perceived risks, inadequate business plans, the high value of collateral needed for a loan, and the current financial environment in which banks are limited in their ability to expand their balance sheets.

The higher perceived risk involved with lending to SMEs among banks is due in part to information asymmetry or the relatively high cost of obtaining information about the business potential and cash flows of the operators, each because of capacity gaps on both the borrower and lender side. As a result, banks demand high levels of collateral as security and the cost of borrowing increases and constrains access to finance for SME operators. Meeting the collateral requirements of formal finance providers, usually in the form of fixed assets and real estate, is much more difficult for SMEs compared with large enterprises.

Inadequate collateral and difficulties in proving their credit worthiness or absence of credit history were the main factors that discouraged micro- and small enterprise (MSE) operators from submitting loan applications to formal finance providers, followed by difficulties in processing loans, and the high cost of borrowing. Indeed, collateral rates[1] in Ethiopia are much higher than in many other countries in Africa, and in Asia, Eastern Europe, and Latin America. For example, the collateral rates for SSA, Kenya, South Africa, and Morocco were 162.2 percent, 120.8 percent, 103.8 percent and 171.2 percent of the loan value respectively, compared to 234 percent in Ethiopia (Wolday and Tassew, 2015). The value of collateral needed (in percentage terms) for a loan in East Asia and the Pacific, Eastern Europe and Central Asia, Latin

1 *Banks and microfinance institutions (MFIs) in Ethiopia prefer immovable collateral such as land and buildings rather than movable assets such as machinery.*

America and the Caribbean, and South Asia were 176 percent, 135.6 percent, 197.3 percent, and 232.5 percent respectively (World Bank, 2014b). Moreover, the absence of collateral registration in combination with ineffective enforcement of contracts in case of default are also constraining factors to the significant losses for banks which affect SME lending in Ethiopia.

1.2 Objectives of the DCA program

USAID's DCA offers partial credit guarantees, whereby USAID shares the risk of borrower default with partner banks. DCA offers different types of products, the most popular being the loan portfolio guarantee (LPG), whereby some percentage, usually 50 percent, of a maximum principal value of loans to targeted borrowers on the balance sheet of a private commercial bank partner is covered from default on a *pari passu* basis or equal footing. While an LPG is a product for a partner bank, a portable guarantee (PG) is a product for borrowers, providing coverage against default, which, upon USAID's consent, can be utilized at most any private commercial bank. Once a lender is identified by the borrower, PGs convert to loan guarantees (LGs) and, in the event of default by the borrower, USAID would guarantee a portion of the outstanding principal balance. DCA also offers LGs to support specific borrowers, as well as local government and non-government entities, but not sovereign (central government) bond guarantees (BGs). All of these products are designed to encourage a lender to extend credit to borrowers that are currently under-served by financial institutions (USAID, 2009). LPGs target specific sectors (e.g. agriculture, tourism) or segments (e.g. women, diaspora), and while partner banks are required to utilize the guarantee only for qualified borrowers (as defined in the legal agreement between USAID and the partner bank), LPGs rely entirely on the bank's own loan approval processes. USAID/Ethiopia began entering into DCA LPGs with partner banks in Ethiopia in 2004, while just one PG to LG conversion has been issued, in 2014.

USAID/Ethiopia's utilization of DCA guarantees seeks to: mobilize private capital to targeted segments and sectors, such as the agricultural and health sectors, diaspora and women entrepreneurs; help private commercial banks to develop a range of new financial products for these targeted borrowers; create a more competitive market environment for banking services targeted to those borrowers; enable targeted borrowers to access loan services with lower collateral requirements; and create strong market linkages with local partner banks (as illustrated in Figure 3).

1.3 Assessment objectives and methodology

The core objective of this performance evaluation is to measure the outputs, outcomes and impact level achievements of DCA guarantees over the 12 years since 2004. The specific objectives of the performance evaluation include to:

(i) Assess how DCA guarantees facilitated lending to SMEs in Ethiopia, both in terms of the value of loans and number of loans to agricultural value-chain actors, diaspora, private health service providers and women-owned businesses, as well as review the support of the DCA program in assisting the efforts of USAID and the Government of Ethiopia (GoE) in achieving development objectives.

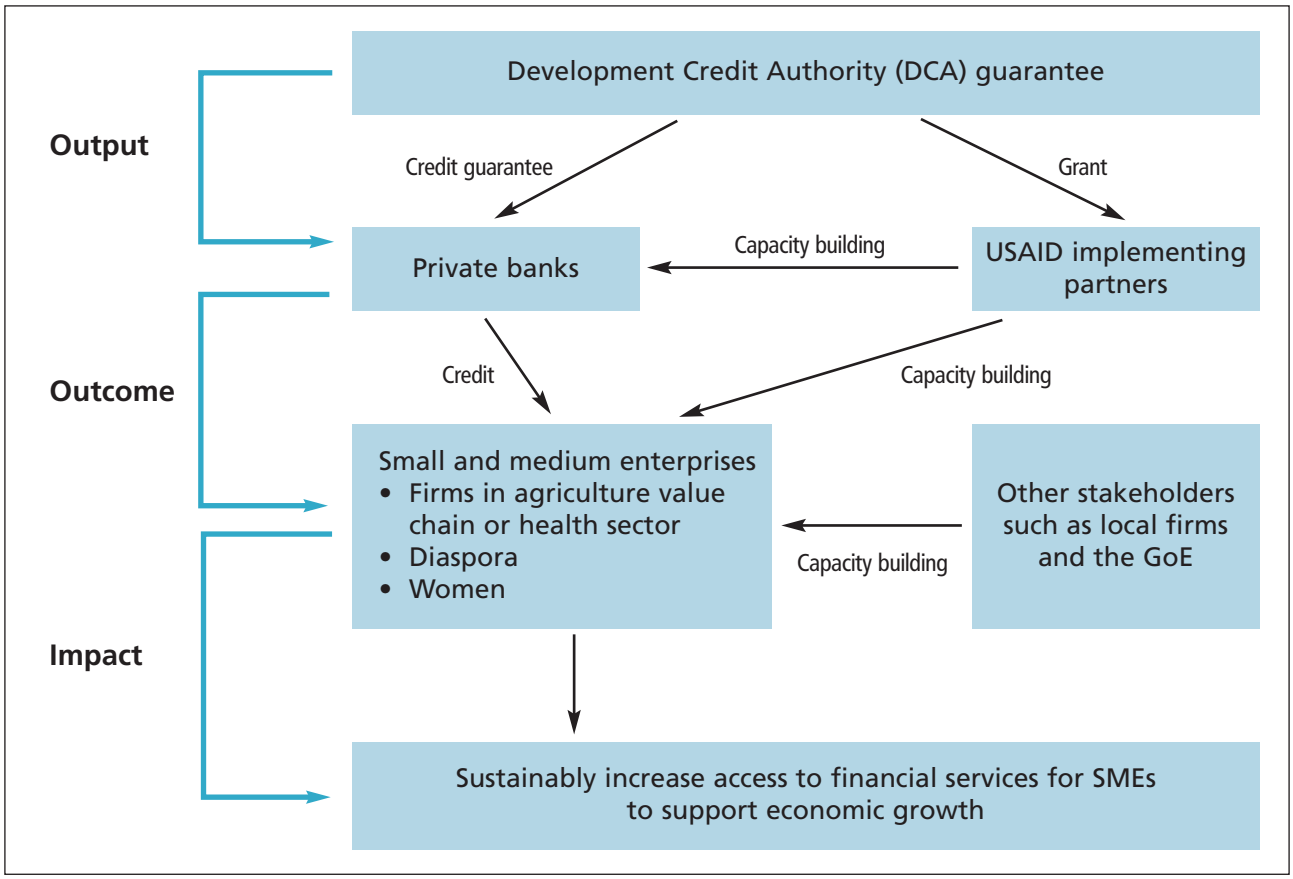
(ii) Evaluate the involvement of partner banks in the DCA program by studying their capacity for expanding lending to target businesses after the loan portfolio guarantees have expired, ensuring sustainability, including the cost-effectiveness of the guarantee to partner banks.

(iii) Assess the outcomes and impact of DCA guarantees on the performance of beneficiary enterprises and their livelihoods (household incomes, assets, etc.).

(iv) Review lessons learned from the experience of DCA guarantees to be disseminated and propose specific interventions that will guide and strengthen future programming.

Impact evaluation studies usually rely on measuring the degree of change in a specified outcome that is attributable to the intervention of programs such as DCA, often through quantitative approaches. Randomization is generally required in order to effectively measure impact quantitatively and attribute causality, because the characteristics of the treated and untreated groups are equally distributed, implying the

Figure 3 Conceptual framework to assess the performance of DCA guarantees



Output: The partner banks utilize the loan portfolio guarantees (LPGs) by extending loans to targeted borrowers. The DCA guarantee facilitates increased lending in terms of both the value of loans and number of loans to, for example, agricultural value-chain actors, private health service providers, diaspora and women-owned businesses.

Outcome: Guaranteed borrowers receive greater access to credit than they would have otherwise (additionality). It is expected that each partner bank will develop its own strategy for expanding lending to targeted borrowers after the LPGs have expired, ensuring sustainability.

Impact: The DCA guarantee strengthens private commercial banks and increases access to finance among targeted borrowers, in order to increase sustainable economic growth through increased investment, revenue, profit, sales, etc., ultimately affecting livelihoods through improvements in household income.

untreated group is the correct comparison. However, randomization is not always feasible, particularly when the evaluation is conducted after the intervention/ treatment has already been given to participants (Steiner et al., 2010), as is the case in this instance. Given the lack of randomization and population level data for borrowers and banks alike, we have termed this paper a 'performance evaluation' which focuses on gathering primary and secondary qualitative information from project stakeholders in order to assess whether the DCA guarantees have met/are likely to meet intended objectives, i.e., outputs, outcomes, and impact (See Annex 8 for a complete list of interviews conducted). Quantitative data from DCA's Credit Monitoring System (CMS) regarding utilization rates, borrowers, and loan amounts are also used.

The outputs, outcome, and impact of DCA guarantees in Ethiopia are evaluated here along six major dimensions: appropriateness of the design; utilization; credit additionality; financial sustainability; program sustainability; and impact on the borrowers.

Appropriateness of the design: The inherent design of the loan portfolio guarantee is directly or indirectly related to the outcome and impact of the scheme. As indicated by Green (2003), the weakness of early guarantee schemes can be avoided through proper design and institutional arrangement. For example, targeting riskier types of borrowers through strict

eligibility criteria may have a positive impact on additionality by discouraging partner banks from using the guarantee for average risk borrowers, but may also reduce utilization and generate adverse selection effects (Saadani et al., 2010). An effective design needs to strike a balance between the objectives of utilization, additionality, and financial sustainability. Although there is no standard approach to assess the project design of portfolio guarantees, attempts are made to review the scheme against general guiding principles and selected international best practices.

Utilization: This is the key output indicator for LPGs, because it is a measure of the value and appropriateness of the product for banks; it is commonly measured by the number of loans issued to qualified borrowers and the amount of actual loan disbursements as a percentage of the potential maximum coverage amount.

Credit additionality: This measures the extent to which loans under the guarantee are extended to borrowers that are credit constrained and would not have been able to obtain a loan without the support of the DCA guarantee.

Financial sustainability of project: From the perspective of partner banks, a loan portfolio guarantee product should be cost-effective and ultimately profitable. While the objective of DCA is not necessarily to increase the profits of partner banks, in order for the project to be financially sustainable the guarantee product must be seen as being financially viable (Saadani et al., 2010).

Program sustainability: DCA products are meant to serve as a pilot project of sorts in order to produce demonstration effects which play a catalyst role in transforming the perspective of partner banks to comfortably continue lending to targeted borrowers after the guarantee is no longer in place. Thus, increased exposure of partner banks to the targeted sector or class of borrowers after a guarantee expires is a key outcome and/or impact indicator.

Impact on borrowers: The underlining development impact sought by DCA guarantees in Ethiopia is the financial and economic performance of the guarantee users. In this evaluation, impact is measured by reported improvements in borrower households' income and quality of life, as well as on commercial activities of the enterprises in terms of growth in employment, sales, new products developed, competitiveness, and productivity.

1.4 Method of data collection

Fieldwork for this evaluation included meetings with five partner banks and 12 beneficiaries that were purposively selected by considering regional, sectoral and gender balances for in-depth interviews using structured questionnaires. Moreover, three USAID implementing partners that provide capacity-building support were interviewed to capture their views on the value addition of the technical assistance to partner banks and borrowers. On top of the primary information, secondary data were also extensively used in the study. An internet review of literature, assessment of the public policies that influence SME financing in Ethiopia, and critical review of selected and recent sample MSME survey results, focusing on financial constraints, were undertaken prior to commencement of the fieldwork. Documents and reports from USAID/DCA and partner banks were also useful inputs in the evaluation process, as was CMS data.

2. Salient features and outreach of the DCA program

To address the constraints to SME access to finance, USAID/Ethiopia has relied mainly on the LPG mechanism to date, which mostly has focused on agriculture value-chain participants that support USAID's broader objectives to reduce hunger and food insecurity in Ethiopia through the Feed the Future Initiative. Key stakeholders include: cooperatives, livestock value-chain actors, smallholder farmers, agricultural input suppliers, seed companies, agricultural equipment providers, transporters, warehouse operators, aggregators, post-harvest processors, and farmer organizations with forward-delivery contracts. On top of supporting SMEs in the agricultural value chain, DCA activities have targeted diaspora, private health service providers, and women entrepreneurs in various sectors. The salient features of a typical LPG in Ethiopia are summarized in a sample term sheet in Table 1.

The implementation of the DCA program in Ethiopia often includes a capacity-building component to support both the partner banks and borrowers. When there has been technical assistance, it has been primarily focused on borrowers, not partner banks. The assistance to partner banks is expected to help them in developing their own strategy to expand lending to targeted enterprises and sectors in the future, without DCA support, but this has generally not been an integral part of the TA program in Ethiopia. Capacity-building providers (partner USAID projects) are expected to offer assistance such as training on new product development and customized risk management to partner banks. It is also important to assess the role of TA providers such as AGP-AMDe, AGP-LMDP and SHOPS (USAID/Ethiopia implementing partners) to assist DCA borrowers.[2] Given the diversity of the targeted borrowers' enterprises, the USAID/Ethiopia projects have used various specialized capacity-building providers to assist them in preparing business plans and loan applications and in managing their businesses. For the partner banks, most or in some cases all of their DCA-guaranteed clients were referrals from these projects. Even with this support, to qualify for the DCA-backed loan, the potential borrower must meet all the normal eligibility criteria of partner banks.[3] However, all partner banks reported that clients under the DCA guarantee receive priority, often with applications moving directly to a Vice President's office for expedited review and approval.

In order to facilitate lending by private commercial banks, DCA provides 50 percent loan portfolio guarantees which attempt to compensate for the lack of acceptable collateral that can be offered by the targeted borrower. Partner banks are selected after DCA reviews their performance, with soundness of assets and management of risks of the bank as just some key factors, among others. Moreover, the partner banks are expected to show clear interest and commitment in extending

2 *For example, the Agricultural Growth Program-Agribusiness and Market Development (AGP-AMDe) and AGP-Livestock Market Development Program (LMDP) provides limited technical assistance to DCA partner banks and technical assistance to potential borrowers engaged in selected crop value chains, such as maize, wheat, coffee, etc. and the livestock value-chain respectively. Strengthening Health Outcomes through the Private Sector (SHOPS) offers capacity-building support to partner banks and targeted private health service providers. The three partner USAID TA providers are expected to assist in developing a stronger private sector that is able to meet the demands of domestic and export markets through linkages with farmers and smallholders, increased productivity, and improved post-harvest practices.*

3 *These required documents normally include certificates of registration and single business permits, tax identification number (TIN)/value-added tax (VAT), audited financial reports, matching collateral and ownership certificates, certificates of asset, guarantee letters, a marriage certificate, etc. After a potential borrower meets the list of preset eligibility criteria, the bank starts appraising his/her loan application, which is largely done through the establishment of a close relationship with the potential borrower. Loan appraisal techniques of all partner banks are mostly based on traditional relationship lending rather than on transactional technologies such as credit scoring. Relationship lending/loan approval techniques are based on soft information gathering by loan officers via direct personal contact with borrowers. Moreover, partner banks commonly utilize quantitative and qualitative assessment for their credit analysis. Most of the partner banks do not separate the credit risk management function from the sales function. In many cases, the risk management in partner banks is handled by a credit analyst and assessment processes are not automated.*

Table 1 Example of a typical term sheet of an LPG in Ethiopia

Authority	DCA
Type of guarantee	Loan portfolio guarantee
Guarantee party	Private bank(s) (e.g. Bank of Abyssinia)
Maximum portfolio amount	US$10,000,000
USAID guarantee percentage	50%
Guarantee ceiling	US$5,000,000
Term of guarantee	2011–2016
Origination fee	0.50% of maximum portfolio amount
Utilization fee	1.5% p.a. of the cumulative outstanding principal loan balances
Qualifying borrowers and projects	e.g. SMEs engaged in the agriculture value chain, health sector, diaspora, and women-owned businesses

Table 2 The performance of DCA facilities in Ethiopia

Target sector	Target segment	Partner name	Start date	End date	Guarantee agreement value	Util. %	Number of loans
Agri	SME	Awash International Bank*	2004/09/28	2014/09/28	$9,000,000	97.87%	44
Agri	SME	Bank of Abyssinia*	2004/09/28	2014/09/28	$9,000,000	96.83%	40
Agri	SME	Dashen Bank*	2005/09/15	2015/09/15	$10,000,000	99.02%	74
General	SME	Bank of Abyssinia*	2008/09/26	2015/09/26	$4,280,000	41.47%	29
General	SME	Bank of Abyssinia	2008/09/26	2020/09/26	$6,420,000	74.80%	10
General	SME	Nib International Bank S.C.*	2008/09/26	2020/09/26	$6,420,000	35.23%	11
Health	SME	Bank of Abyssinia+	2011/09/30	2021/09/30	$4,474,063	35.02%	16
Health	SME	Nib International Bank S.C.+	2011/09/30	2021/09/30	$4,474,063	80.80%	58
Health	SME	Bank of Abyssinia or Nib International Bank S.C.+	2011/09/30	2021/09/30	$4,474,063	0.00%	0
Agri	SME	Bank of Abyssinia*	2011/09/22	2017/09/22	$3,655,928	4.12%	1
Agri	SME	Zemen Bank	2011/09/22	2017/09/22	$3,655,928	61.82%	6
Agri	SME	Cooperative Bank of Oromia**	2013/09/30	2018/09/30	$3,000,000	44.24%	11
Agri	SME	Oromia International Bank**	2013/09/30	2018/09/30	$3,000,000	30.61%	9
Agri	SME	Cooperative Bank of Oromia or Oromia International Bank**	2013/09/30	2018/09/30	$4,000,000	0.00%	
Agri	SME	Dashen Bank*	2013/09/30	2016/05/13	$10,000,000	0.48%	3
Agri	SME	Zemen Bank*	2013/09/30	2016/04/11	$2,500,000	0.00%	0
Agri	SME	Zemen Bank	2014/09/25	2021/03/30	$1,250,000	97.65%	1

*Notes: *Expired or terminated guarantees; **Competitive guarantees; +PEPFAR competitive guarantee*

finance to the targeted borrowers. Once the banks sign the guarantee agreement, targeted borrowers are able to apply for a loan and partner banks begin placing such loans under coverage of the DCA guarantee; but in practice, in the case of Ethiopia, most of these clients are referred to the banks through an active USAID program.

Between 2004 and 2015, DCA signed 14 LPG agreements and one LG agreement with seven private banks. Of the 14 LPG agreements in Table 2, four guarantees expired naturally and four were terminated, while the remaining seven are active guarantees. One agreement with Nib Bank was terminated at the request of the bank, and since the utilization rate of one of the agreements with Bank of Abyssinia was very low (4.12 percent), DCA decided to terminate the agreement. Nine of the DCA LPGs focus on extending loans to SMEs in agricultural sector value chains, two LPGs are focused on lending in the health sector, and the remaining three LPGs provide priority lending to diaspora and women-owned businesses.

Based on the agreements between USAID/Ethiopia and the seven partner banks, the total maximum cumulative disbursement (or guarantee agreement value) was $90,604,045, while the total cumulative utilization as of the last report was $47,369,550, for an average utilization rate of 53.3 percent. However, the utilization rate is a function of various elements including the time since signing the guarantee (utilization is typically low in the first two years of the agreement and then increases), internal preparation of the banks, commitment to and understanding of the DCA by the senior management, dissemination of the necessary instructions to branches, etc. Of expired guarantees, the overall utilization rate increases to 84 percent. In particular, the utilization rate of the expired guarantee agreement with Dashen Bank was very high (99.02 percent). Of the two expired guarantee agreements with Bank of Abyssinia, the guarantee that focused on lending to women entrepreneurs had lower utilization (41.47 percent) compared to the other which targeted the agricultural sector, with utilization rate of 96.86 percent.

The full utilization of the facility by Dashen Bank and Bank of Abyssinia underscores the importance of the commitment of the staff at the head office level for the

Table 3 Average utilization rate, subsidy fees paid and claims of partner banks

Partner name	Average cumulative utilization percentage (%)	Fees	Claims	Total number of claims
Awash International Bank	97.87%	$81,471	$0	0
Bank of Abyssinia	96.83%	$63,996	$327,726	3
Dashen Bank	99.02%	$98,293	$66,756	1
Bank of Abyssinia	41.47%	$41,547	$5,402	1
Bank of Abyssinia	74.80%	$19,079	$3,428	1
Nib International Bank S.C.	35.23%	$58,244	$0	0
Bank of Abyssinia	35.02%	$30,952	$0	0
Nib International Bank S.C.	80.80%	$26,554	$0	0
Bank of Abyssinia	4.12%	$18,784	$0	0
Zemen Bank	61.82%	$29,231	$0	0
Cooperative Bank of Oromia	44.24%	$7,500	$0	0
Oromia International Bank	30.61%	$7,500	$0	0
Dashen Bank	0.48%	$25,000	$0	0
Zemen Bank	0.00%	$12,500	$0	0
Zemen Bank	97.65%	$0	$0	0
Total	53.33%	$520,651	$403,312	6

utilization of the facility. It also underscores the importance of aligning the target sector/borrowers under a DCA guarantee with bank strategies, which may be prone to shift on short notice. The strategy shifts away from borrowers targeted under a DCA guarantee typically stem from a perceived increase in risks in the DCA-targeted area.

Throughout the period since USAID/Ethiopia first entered into guarantees with partner banks, it has taken in more money in fees than it has paid out in claims

As of March 2016, the origination and utilization fees paid by the partner banks totalled $520,651, while partner banks submitted six claims (on loan defaults), for $403,312.[4] Three defaults under Bank of Abyssinia accounted for about 82 percent of the claims paid. This means that throughout the period since USAID/Ethiopia first entered into guarantees with partner banks, it has taken in more money in fees than it has paid out in claims. If this continues to hold true after all guarantees expire, it is odd because DCA is in theory supposed to act as a subsidy, not a net moneymaker. Different theories could explain this result. One is that this is an indication of low levels of additionality (value added) of the DCA product. If DCA guarantees are supposed to incentivize risk-taking by partner banks, but defaults are no higher than the banks' portfolio as a whole, then this indicates the guarantee may be ineffective in achieving additionality. However, another theory could be that the targeted sectors do in fact present profitable lending opportunities and DCA created a demonstration effect by lowering the risk to banks to experiment with lending to these clients. This was the case, for example, with private health clinics under the agreement with Nib Bank and to a significant degree for women borrowers under the agreement with Bank of Abyssinia, as both banks have indicated their continued interest in lending to these clients.

A third theory, to which the authors subscribe, is that most of these targeted sectors and clients did indeed present profitable commercial lending opportunities and that has been the main reason why defaults remained low. At the same time, these were in fact riskier borrowers, and these risks are beginning to materialize with the current stress in the agriculture sector in particular. We have evidence that non-performing loan (NPL) rates are increasing across a number of LPGs, and this is why some banks have expressed less desire to continue lending to some DCA-targeted sectors. We conclude that the DCA guarantees did encourage banks to assume increased risks as designed, and until just recently these investments have paid off; however, they are now experiencing pressure as a result of an exogenous shock in the form of a massive drought. It is hoped that the agriculture sector can escape the current downturn and continue to attract investment going forward.

Once a loan is approved and issued, borrowers repay the bank according to the repayment schedule, just as any other client. DCA charges a 'utilization fee' to the partner bank, which is sometimes either absorbed by or transferred to the borrower in the form of a higher interest rate than a similar non-DCA-backed loan. In the case of Ethiopia, due largely to liquidity constraints and credit rationing, most banks reported that they passed on 100 percent of the utilization fee to the client. This makes sense in terms of standard tax-incidence theory in economics, whereby the more 'inelastic' (least sensitive to price) side of the market, in this case borrowers, should absorb most of a tax or fee.

4 Fees are paid to the US Treasury.

3. The performance of the DCA product – Views of stakeholders

Perceptions of the performance of the DCA product in Ethiopia by the key stakeholders are affected by a number of factors. Most recently, macroeconomic factors such as the fiscal environment and policies affecting the financial sector have driven performance perceptions. Often, the opinions of the lenders, borrowers, and TA providers coincide, while at other times there are significant divergences driven by differing experiences with the guarantee. This section reviews and analyzes the observations of these key stakeholders during the fieldwork that was conducted.

3.1 Macroeconomic factors influencing the performance of the DCA program

The success of a DCA loan portfolio guarantee is directly and indirectly influenced by macroeconomic factors and the ongoing development of the financial sector. The Ethiopian economy has registered double-digit GDP growth in the past ten years with an associated expansion of the private sector, particularly to MSMEs. However, private investment in Ethiopia was only about 28 percent of the GDP compared with the SSA average of 72 percent of GDP (USAID, 2014) while the share of public sector credit climbed to two-thirds of the total available. Despite the support of the Ethiopian government to promote MSMEs, they have encountered serious challenges in the form of a financial sector that is closed to foreign investment, onerous sector-specific regulations, limited capacity, and lack of bank sophistication. The result has been a severe shortage of liquidity among local commercial banks, ultimately manifesting itself in the form of credit rationing.

Government-owned banks dominate the Ethiopian banking system, constituting 71 percent of total assets of the sector. Until 1994, only the state-owned banks, namely the Commercial Bank of Ethiopia (CBE), DBE, and the Construction and Business Bank (CBB) were in operation. In the last 20 years, 16 private commercial banks have been established and have begun providing financial services to the domestic market. Despite the financial crisis that affected much of the rest of the world beginning in 2008, the banking industry in Ethiopia has registered remarkable progress in the last five years. According to a National Bank of Ethiopia (NBE) 2014 report, over 2009–2013, total assets of the banking sector grew by 30 percent, loan and advances by 27.8 percent, deposits by 31.4 percent, capital and reserves by 21.7 percent, profit after tax by 32.2 percent, branch network by 33 percent, and human resources by 13.3 percent. In 2014, the 16 private banks and the three government banks had 1,205 and 1,003 branches respectively.[5]

However, the expansion of the banking sector has been dominated by the government-owned CBE, as the share of private bank assets to total assets of the banking sector declined from 36 percent in 2008/09 to 28 percent in 2012/13 (World Bank, 2014a). The share of CBE to total banking sector assets, deposits and profit in 2014 was 69 percent, 56 percent and 51.4 percent respectively. Although CBE has been successful in mobilizing deposits, its primary objective has been to meet the loan and hard currency demand for large government projects such as power generation and distribution, establishing large sugar plantations/factories, construction of condominium houses, railways, telecommunication, etc. Given this primary demand for its resources, CBE gave very little attention to MSME finance. At the same time, the huge demand for loanable funds in the economy has given the private commercial banks little incentive to lend to riskier clients such as MSMEs and, when they do, the terms often include higher collateral than principal value.

The liquidity challenge of banks was aggravated by the tight monitory policies implemented by NBE or the central bank that were aimed at reducing inflation, which included increasing the reserve and liquidity

5 *Total assets of the banking sector increased from 101.7 billion Birr in 2009 to 375 billion Birr in 2014, while the industry's deposit increased from 73.7 billion Birr in 2009 to 299.1 billion Birr in 2014. Moreover, the total profit before tax increased from 4.3 billion Birr in 2009 to 12.3 billion Birr in 2014.*

requirement of banks, lowering the lending of banks to below 50 percent their deposits, and even halting their lending activities in 2009. Then, in April 2011, NBE issued a directive requiring all banks, except the state-owned CBE and DBE, to purchase DBE bonds that cover 27 percent of the principal value of every loan disbursed. These bonds yield 3 percent, far below the rate of inflation and even farther below the cost of acquiring additional funds on market terms. This requirement serves to channel resources directly to government, as explained in the IMF 2014 Article IV report for Ethiopia:

> "*The proceeds of these bonds are transferred to the state-owned Development Bank of Ethiopia (DBE) which, according to the stated policy, is supposed to on-lend them to government targeted private sector activities. However, an analysis of DBE balance sheet reveals that more than half of the proceeds are used to buy T-bills. This, combined with the policy of directed lending mainly to public enterprises in an environment of negative real interest rates, results in a significant transfer of resources from creditors (savers) to borrowers, especially the public sector.*"

The directive further restricted the availability of loanable funds and this greatly reduced the incentives of private banks to extend scarce resources to potential borrowers under DCA facilities. The CEOs of partner banks were in broad agreement that the current liquidity challenges in the banking sector are a key factor limiting the utilization of DCA guarantees.

Nominal interest rates are also rising, reaching as high as 19 percent for some borrowers, but not fast enough to offset demand and eliminate the need for credit rationing. This is likely because of two main factors: first, the CBE acts as a 'rate setter' given its market dominance. As a state-owned institution, it is typically encouraged to keep rates low and normally artificially below market rates. Commercial banks risk losing customers if their interest rates rise too far above the CBE rate of 9 percent. Second, rising interest rates attract an increasingly risky pool of borrowers which the banks want to avoid (Stiglitz and Weiss, 1981).

Moreover, the shortage of foreign exchange in the economy has led partner banks to give priority to firms engaged in the export sector, at the expense of SMEs. Interest rates for exporters run as low as 8 percent according to banks interviewed, which with inflation currently running around 10 percent, results in a negative real interest rate. The banks compensate the loss of interest income through the foreign exchange premium, which is currently estimated at around 15–20 percent.

The effects of these constraints can be seen at the household level. According to the 2014 Global Findex (conducted for the first time in Ethiopia), only 22 percent of Ethiopians owned a bank account at a formal financial institution, compared to the Sub-Saharan regional average of 34 percent, while only 7 percent of Ethiopians had borrowed from commercial financial institutions (World Bank, 2014b).

Data from the World Bank 'Enterprise Surveys' (2015) suggests that the problem has grown worse recently. There was a substantial increase in the percentage of firms identifying access to finance as a major constraint, with over 40 percent doing so in 2015, compared to 33 percent in 2011 and just 19 percent in 2006. Finally, Ethiopia ranked 167th out of 189 countries for 'ease of getting credit' in the 2016 *Doing Business* report of the World Bank, with an index score of just 15 out of 100, compared to the Sub-Saharan African average of 35.85.

These effects are not uniform. According to the 'Enterprise Surveys', 57 percent of small and 49 percent of medium-sized firms reported to be 'fully credit constrained', compared to just 24 percent of large firms. When citing reasons for not applying for a loan, 29 percent of small firms and 33 percent of medium-sized firms cited onerous collateral requirements, compared to just 6 percent for large firms (World Bank, 2015).

Despite these constraints, private banks in Ethiopia continue to thrive, recording some of the highest returns on equity in the region (World Bank, 2014b). The reason for this apparent contradiction in light of the above documented constraints is lack of competition in a financial sector closed to international competition and many GoE policies constituting implicit subsidies for the banks. This

inordinate level of profitability signals that banks are already receiving relatively high yields on their existing positions, further lowering their incentive to assume additional risk in the SME sector and new borrower classes. However, high profits could also create an opportunity through which the DCA products could divert some level of these profits back towards under-served sectors and clients. This 'profit cushion' is perhaps reflected in the local banks' uniformly high level of interest in obtaining a DCA product, described further in the next sub-section.

3.2 Bankers' views on the DCA program

The views of partner banks on the DCA program overall are seemingly contradictory on the surface. It was very clear that senior bank management highly valued being a DCA partner institution. At the same time, nearly all agreed that the DCA guarantees were not a financially profitable stand-alone product. Interestingly, it is the relationship with USAID and its implementing partners, rather than the guarantee product itself, which is more highly valued. Partner banks enjoy USAID's ability to offer technical assistance to qualified clients and refer them to the bank. The initial support makes these clients more bankable, while the ongoing support offered by USAID reduces the probability of default by improving business decisions. The banks also value the training that their staff is sometimes offered through the TA providers, described in more detail below.

Corporate social responsibility plays an important role in Ethiopian society, and a partnership with USAID acts as an international seal of approval

The relationship with USAID and its implementing partners also connects the bank with a wider universe of stakeholders, often including GoE officials and other international donors which can prove to be valuable business partners. Finally, there is the perceived prestige of working with USAID, which allows the banks to signal a commitment to their country's larger development goals and support for the under-served communities. Corporate social responsibility plays an important role in Ethiopian society, and a partnership with USAID acts as an international seal of approval of sorts that they can highlight. Due to these factors, despite the liquidity challenge, many of the CEOs and Vice Presidents (VPs) of the partner banks showed their commitment to continue implementing the DCA guarantee.

The perceived value of the relationship with USAID is important indeed, especially since most of the banks admitted that given the high demand for credit in the economy, they could have used the loanable funds allocated to DCA-backed borrowers to lend to larger and safer clients; ideally such clients would be in the export or trade finance sectors, which can offer coveted foreign exchange and provide near complete assurance of repayment given the large size of the firms involved. At the same time, they recognized the importance and stressed the need to assume the additional risks involved in extending loans to SMEs who have less access to finance. This is not completely or even in large part due to charitable concerns about the social good. The banks are aware that financially profitable opportunities exist in the SME space, and all agreed that a DCA guarantee increased their level of comfort with lending to new clients, both via default coverage and the confidence that a partnership with USAID offers.[6]

Except for reductions in the collateral requirement, the terms and conditions for the DCA-backed loans and regular loans of the partner banks are generally the same. Banks all agreed that DCA enables them to lower collateral requirements for covered borrowers and also allows them to access a larger loan amount than similarly qualified borrowers. It was clear, however, that collateral requirements were not lower than 100 percent of the principal for DCA borrowers in most cases. This was especially true of first-time borrowers, most of whom had to offer up their primary residences as collateral, generally valued at well over 200 percent of the value of the principal. For repeat borrowers with

6 *To address the liquidity challenge, some banks are revisiting their strategies such as increasing the interest rates on savings and demand deposits.*

Courtesy of Leila Ahlstrom, USAID Development Credit Authority

Mulu dairy farm is a small family-owned enterprise that has benefited from a DCA-backed loan.

the ability to offer business assets as collateral, it was much more likely that banks would lower collateral requirements for DCA-backed loans compared to uncovered loans for similarly qualified borrowers.[7]

The current lack of short-term financial incentives to lower collateral requirements and undertake additional risks was exemplified by some banks' complaint that DCA does not assume liability for virtually all losses of principal. For example, two separate banks grumbled that, overall, DCA only covers 25 percent of the principal value of a loan if half of that value is secured as collateral, an admission that they expect to assume as close to zero risk as possible. Many banks therefore called for higher guarantee percentages if they were to be expected to lower collateral requirements for DCA borrowers, as banks confirmed the existence of credit rationing and admitted that they can demand larger amounts of collateral to cover small loan amounts. Some banks even asked if USAID could consider parking its subsidy payment in the bank, rather than at the US Treasury, so that this money could be leveraged. A general consensus was that, in the current environment, DCA products can affect this reality only at the margin by redirecting some scarce credit to new and targeted borrowers, but that DCA guarantees are largely powerless to increase the amount of credit offered by commercial banks.

Banks also found technical assistance to be critical for borrowers, as described above.[8] With the exception of Bank of Abyssinia, the rest of the partner bank CEOs revealed that the repayment rate for DCA-backed loans and the rest of their portfolio was similar until just

7 Unfortunately, we did not have hard and consistent data with respect to average collateral coverage of loans to analyze. Going forward, DCA should attempt to require this information from partner banks.

8 However, there were some cases where banks complained that unqualified borrowers and unrealistic feasibility studies were submitted to the banks.

recently and were generally at a relatively low risk of default. However, it was agreed that the DCA borrowers require more support and post-loan follow-up from bank staff and USAID implementing partners than the regular clients of the bank. Again we see more confirmation of the importance of the TA providers in making the program work, as bank staff consistently cited their importance to the successful repayment of loans under the program.

Although the default rate of DCA-backed loans is less than 2 percent, the reasons behind the default of DCA borrowers vary from enterprise to enterprise and from bank to bank. In some instances, borrowers use the proceeds of their loan to invest in real estate and finance consumption needs (weddings, funerals, vehicle purchases, etc.). This puts repayment in jeopardy, and banks complained about their inability to monitor such practices.[9] Another common refrain from the banks was that many borrowers who were informed that their loan was part of a 'USAID program' considered the loan as a grant of sorts and were reluctant to repay. The banks blamed this 'moral hazard' problem in part on USAID and its implementing partners, accusing them of not fully and accurately explaining the program.[10]

There have been only six default claims paid by USAID to date in Ethiopia. This is in spite of the fact that NPL rates are rising.[11] USAID can pay out on the guaranteed portion of the outstanding principal balance of a loan as soon as 90 days after a partner bank has written off a loan, but it appears that partner banks have been waiting to submit requests for claim payments until after collateral recovery. While USAID is permitted to pay claims in advance of collateral collection, many banks wait until this process is complete before submitting a claim, perhaps because they perceive it to be difficult to reimburse USAID at a later date. Another reason for non-submission of claims to DCA is, as noted throughout this report, many guaranteed loans are well over 200 percent collateralized. In these cases, the DCA product itself has no real financial value to the bank when the bank is able to fully liquidate seized collateral.

USAID should help partner banks understand that claims are not generally viewed as a failure of the guarantee or the bank

Two other reasons stem from misperceptions on the part of banks. One is a simple lack of knowledge on how to submit claims and the perception that the process would be onerous (we determined that the process is in fact relatively straightforward and quick, as DCA does a highly effective job of processing claims). Another is the misperception that submitting claims will be viewed negatively by USAID and could damage the relationship with the bank. It is unclear how widespread this belief is, but USAID should make efforts going forward to help partner banks understand that claims are not generally viewed as a failure of the guarantee or the bank, and in fact are an important factor in demonstrating the value-added of the DCA product by evincing that banks are indeed taking on additional risks.

While some partner banks reported that their overall SME portfolio has increased as a result of the DCA-backed loans and that their targeted sector portfolio will continue to grow (e.g. Nib Bank in the health sector), indicating program sustainability, others felt as

9 For example, one DCA-backed borrower we spoke with took a loan to expand his clinic in Adama, just south of Addis Ababa, but defaulted largely as a result of using about 75 percent of the loan proceeds to buy a house. After accessing the loan from the partner bank and buying the house, the remaining resources were insufficient to purchase the equipment needed to upgrade the clinic, leading to its ultimate failure.

10 Generally, across the global DCA portfolio, borrowers do not know that their loan is covered under a guarantee. The extent to which borrowers know about the guarantee and the DCA program in Ethiopia is unique.

11 Banks in Ethiopia usually categorize loans as NPL after 90 days of non-repayment. According to the NBE directive No. SBB/43/2008, loans are classified into the following five categories: (1) Pass: loans that are fully protected by the current financial and payment capacity of the borrowers; (2) Special mention: loans that are past due for 30 days or more, but less than 90 days; (3) Sub-standard: loans that are past due for 90 days or more but less than 180 days; (4) Doubtful: loans that are past due for 180 days or more but less than 360 days; and (5) Loss: loans that are past due for 360 days. While pass and special mention are classified as performing loans, the sub-standard, doubtful and loss are non-performing loans.

if they no longer needed to take perceived additional risks and indicated that they planned to exit DCA-targeted sectors (e.g. Bank of Abyssinia, Zemen Bank, and Dashen Bank in agriculture).

3.3 Borrowers' views on the DCA guarantee

As of March 2016, there have been 316 borrowers supported under DCA guarantees. About 37 percent were first-time borrowers to the bank. Out of these 117 first-time borrowers under DCA, 51.3 percent were engaged in establishing private facilities in the health sector, followed by the agriculture sector (25.6 percent), tourism and trade/commerce (each with 10.3 percent). Nib Bank had the highest proportion of first-time borrowers (41.9 percent), followed by Dashen Bank (32.5 percent) and Bank of Abyssinia (12 percent) (Annex 5).

The most commonly asked question surrounding DCA borrowers strikes at the heart of the additionality issue, which is 'would these borrowers have otherwise been able to access finance in the absence of the DCA guarantee?' There was a clear consensus among borrowers that DCA enabled them to access finance that they otherwise might not have been able to access, but these views ranged in degree. Some claimed that accessing finance without the DCA guarantee in place would have been 'unthinkable' for them. Others said they 'probably could have' accessed finance without DCA since they considered themselves well-qualified borrowers to begin with. Given the huge demand for finance in the country and the liquidity problems of banks, credit in Ethiopia is rationed and SME borrowers find it very difficult to access finance. Both banks and borrowers agreed that in these conditions, DCA 'opened the door', especially for young entrepreneurs and first-time borrowers, in particular by giving their applications priority. On top of the support from the DCA product itself, borrowers appreciated the technical training and business development services from the TA providers, which they also felt were critical in enabling them to access finance. They appreciated the commitment and support of the technical providers (e.g. MLDP, SHOPS, and AMDe) and USAID staff and stressed the value addition of the capacity-building support. For many young borrowers, their involvement in DCA changed their attitude about doing business with banks, opening the doors for them and others.

Other than the initial challenge of simply being approved for a loan, the most constant refrain among smaller borrowers was that banks have a strong tendency of undervaluing their collateral and reducing approved loan sizes. This was especially troubling to many first-time and small firm borrowers, who had to offer their primary residence as collateral. Given that the value of the property often vastly exceeds the amount of principal obtained in return, many potential business startups in Ethiopia are discouraged from attempting to access finance. DCA guarantees are largely powerless to change this dynamic in the short run given the credit environment, and the issue of overcollateralization is a serious issue that will need to be addressed by USAID. While USAID cannot dictate the collateral requirements set by private banks, it should make the case at the time of negotiation for lowered collateral, and the bank should offer assurances that it intends to lower collateral requirements for borrowers vis-à-vis regular clients.

Would these borrowers have otherwise been able to access finance in the absence of the DCA guarantee?

Part of the problem, other than the current liquidity constraints, is that most borrowers indicated that banks have limited understanding of their businesses, and in general banks lacked the commitment to serve SMEs in the agricultural value chain and other under-served clients. The need for banks to be trained in business banking and to gain a more specialized understanding of specific sectors was emphasized. This will require the provision of tailored capacity-building support to bank staff, focusing on financing SMEs in specific sectors and changing the attitude of banks toward lending to a targeted sector. However, much of this lack of business banking knowledge is rooted in the current financial environment, which includes a lack of competition, above-normal returns for banks, and severe liquidity constraints, all of which dull incentives for banks to

improve their operations. USAID missions should consider more specialized training to bank staff to improve business banking skills, but should also be skeptical of such training's effectiveness in the current environment. Any such training should be focused on risk management and aimed at having some effect on the collateral requirements of the banks.

The second major complaint common among borrowers is the time required to finalize loan procedures, as the application and approval process took much longer than their expectations. This was especially true for first-time borrowers, who reported that the process took 8–10 months on average, and sometimes well over a year. Timely delivery of loans is critical for borrowers, particularly in the agricultural sector because access to working capital is needed for a particular season.[12] However, most of the borrowers agreed that DCA played a pivotal role in reducing the loan-processing time, consistent with what the banks told us. Borrowers agreed that the DCA guarantee gave priority to their applications and enabled them to access finance more quickly than they otherwise would have done. We conclude that DCA has proved effective in lowering the time and burden to access finance.

Many of the borrowers also complained about the repayment schedule of the banks, although this is not unique to DCA-backed loans. Since many banks did not offer the borrowers a grace period, the repayment period of the loan began on the day the banks disbursed it to the borrower. The borrowers reiterated that the absence of a grace period is one of the main reasons for delinquency and NPLs, which sometimes require rescheduling the loans and write-downs for banks.

Another effect of credit rationing has been a reported rise in corrupt practices between banks and clients. Since access to finance is scarce, many potential borrowers (including DCA beneficiaries who freely admitted such) resorted to offering bribes to credit evaluators in exchange for a more favorable estimate of their collateral. At the same time, one beneficiary said that the fact that her loan was placed under the DCA facility made her feel less compelled to offer a bribe, and she credited DCA with enabling her to access finance without resorting to such practices. Either way, this issue is something USAID and its implementing partners will need to investigate further and communicate with partner banks that such practices will not be tolerated and could result in the immediate termination of the agreement. Borrower commitment is also needed, and this could be achieved through incorporating these rules into the training currently offered by TA providers.

Box 1 The effect of the recent drought on SMEs in the agriculture sector

Ethiopia is facing its worst drought in decades, with over 12 million people in need of food aid. Due to El Niño weather conditions, two consecutive rainy seasons failed in 2015, including the Kiremt rains, which normally feed 80 to 85 percent of the country between June and September. This has devastated livelihoods and greatly increased malnutrition rates across the country. SMEs in the agriculture sector are struggling hard as a result of this phenomenon. Partner banks are also pulling back from the sector. The banks perceive the agriculture sector to have become 'too risky', to quote more than one banker. We therefore expect finance to dry up even further in the sector, which will disproportionately harm SMEs. Non-performing loans are indeed picking up. As an illustration, we met with three local firms that lease combines and tractors to smallholders, each of which was suffering due to lack of business associated with the drought. They needed to restructure their loans, which were covered under DCA guarantees, but the bank in question, while open to discussing the situation, was not offering many concessions. If the bank repossesses the machinery of these small businesses, it will likely destroy their livelihoods. Unfortunately, there simply is not much that can be done to increase access to finance in the sector due to the current situation affecting agriculture in Ethiopia.

12 For example, a DCA-supported borrower engaged in input marketing revealed that if he does not obtain sufficient capital to purchase seeds or chemicals on time, he will miss out on the planting season, significantly affecting the profitability of the business. Another borrower, who built a hotel apartment in Addis Ababa, indicated that since it took him two years to access the bank loan, he was forced to change his business plan from a full-fledged hotel to a hotel apartment.

Overall, when speaking with borrowers we quickly confirmed what many other recent studies (including USAID, 2014) concluded: that access to finance is the most binding constraint faced by SMEs in Ethiopia. While realizing that DCA is just a single product and cannot fundamentally alter this dynamic, it was universally agreed that DCA has been effective at redirecting scarce credit to under-served borrowers. Borrowers were extremely positive overall on the importance of DCA and the TA facilities, agreeing on the product's ability to 'open doors' for them when they otherwise might have been a victim of the current credit-constrained environment.

3.4 Capacity-building support to partner banks and borrowers under DCA

DCA guarantees alone do not significantly improve access to finance and the overall performance of the target borrowers. Complementary capacity-building support needs to be implemented to both the partner banks and borrowers under the facilities. Although there were other TA providers in the initial phase, there are currently three USAID/Ethiopia implementing partners offering TA support to DCA borrowers and partner banks: (i) The Agricultural Growth Program Livestock and Market Development Program (AGP-LMDP), which facilitates access to finance through DCA-backed loans and looks for other financing options to build the capacity of borrowers engaged in the meat and dairy value chains; (ii) AGP-AMDe, which has been involved in offering TA support to various private-sector actors in the crop value chains, including access to loans from diverse finance providers such as banks, MFIs and cooperatives, and facilitating the DCA-backed loans to borrowers; and (iii) Strengthening Health Outcomes through the Private Sector (SHOPS), which has provided technical assistance to private health service providers, including facilitating access to DCA-backed loans.

Overall, borrowers found technical assistance to be effective and valuable for their business growth. In many instances, the beneficiaries claimed that USAID/Ethiopia implementing partners did most of the work for them in preparing business plans and getting all necessary documents together to present to the bank. Borrowers were overwhelmingly grateful for this assistance. Banks also greatly value this assistance, as it results in the referral of generally well-qualified clients. The executives of the partner banks indicated past TA support was useful in building the capacity of the staff and exposing them to new businesses, particularly SMEs. The technical support to specific sectors and enterprises assisted them in appraising unique projects, which were beyond the technical capacity of credit analysts in the banks. However, a general consensus was that the training offered by TA providers to partner banks was not adequate and needed to be carried out on a more consistent basis, which was outside the work plans for these TA providers. In just a couple instances, bankers complained that the business plans developed by TA providers were overly optimistic in their revenue and profit projections. For AMDe and LMD, the success rate for supported beneficiaries was over 50 percent, while the success rate of SHOPS was almost 100 percent; compares to a national rate of just 2 out of 1,000 applicants for financing that are approved (Wolday and Tassew, 2015), providing a clear indicator of high value-added services.

It was universally agreed that DCA has been effective at redirecting scarce credit to under-served borrowers

The three TA providers used different approaches to build the capacity of partner banks and beneficiaries of the DCA program. For example, while AGP-AMDe provided no TA support to partner banks except a single workshop, LMDP and SHOPS offered structured technical training to senior staff of banks and took senior executives of the partner banks to other countries for exposure visits. Before offering technical assistance to partner banks, SHOPS conducted a detailed needs assessment to identify the skill gaps of finance providers in lending to private health facility providers and designed the training modules for CEOs, senior bank staff, and credit analysts. Regarding the identification and selection of beneficiaries, AGP-LMDP and AGP-AMDe did not have a formal system, while SHOPS had a very articulate beneficiary selection system which gave equal opportunities to potential beneficiaries in all regions. Unlike AGP-LMDP and AGP-AMDe, SHOPS has dedicated staff to implement only the DCA facility. The

Box 2 SHOPS – An example of effective technical assistance to support DCA guarantees

In October 2011, a DCA loan portfolio guarantee agreement was signed between USAID/Ethiopia and the two partner banks (Bank of Abyssinia and Nib Bank) to facilitate access to loans to private health service providers in Ethiopia. In March 2013, USAID, through Abt Associates Inc., started implementing the Strengthening Health Outcomes through the Private Sector (SHOPS) to provide technical assistance to DCA borrowers, including the facilitation of bank loans and TA support to partner banks. Before offering the TA support to private health sector providers and partner banks, the Private Health Sector Program (PHSP) conducted a detailed needs assessment which was found to be useful in identifying capacity constraints among both borrowers and banks. Unlike other TA providers, SHOPS had dedicated staff, on a full-time basis, to implement the capacity-building support and monitor the implementation of the DCA guarantees. Since PHSP has coordinating offices in different regions, it was easier for SHOPS to use these offices to disseminate information about DCA to the potential beneficiaries in the health sector. Moreover, the Ethiopian Medical Association and the Medical Association of Physicians in Private Practices (which is also a partner of PHSP) were instrumental in communicating and identifying the potential DCA beneficiaries.

Based on the needs assessment of PHSP, SHOPS developed the training module and offered a one-week tailored training program by outsourcing the Frankfurt School of Finance to the senior management staff, including the CEOs and VPs of partner banks. The training mainly focused on lending to SMEs and mitigating the risks. Separate training was also delivered to credit analysts of partner banks, which focused on the role of the private health sector, the standards of the Ministry of Health, and details of the business plans of the private health sector providers. The two training sessions offered by SHOPS brought a significant change in the attitude of partner banks in lending to private businesses in the health sector. Two-day training was offered to the beneficiaries of the DCA facility, focusing on how to access finance from banks and prepare bankable business plans. SHOPS outsourced these borrower training sessions to local private consulting firms, and provided a three-day 'training of trainers', (TOT) to the staff of the local consulting firms and SHOPS staff beforehand to ensure the quality of the training and build local BDS capacity. SHOPS provided the training in all regions for 250 potential beneficiaries of the DCA program. After the training, the potential borrowers were required to prepare and submit their business plans to SHOPS. While some of the business plans submitted by the beneficiaries had deficiencies such as exaggerated costs and returns, a 'copy and paste' approach in their preparation, limited understanding of the standards of the Ministry of Health, etc., SHOPS further assisted the borrowers in revisiting and refining the plans and submitting them on behalf of the borrowers to the partner banks.

The overall success of the TA support of SHOPS was quite impressive. Out of the 250 potential beneficiaries of DCA who took training and received the support in preparing their business plans, 125 borrowers were successful in submitting and getting their loan application approved by the two partner banks. Hardly any loan proposals were submitted with the support of SHOPS that were rejected by partner banks; however, given the insufficient liquidity, only 55 borrowers have accessed finance from the partner banks to date. Moreover, six borrowers who received the TA support of SHOPS were successful in obtaining loans without the support of a DCA guarantee from non-partner banks. The success of this intervention demonstrates the value addition of effectively implemented TA for the DCA program.

team proposes that the SHOPS experience of providing TA support to partner banks and beneficiaries should be documented and shared with other TA providers. There is a need to conduct an experience-sharing workshop, at least once a year, among the three TA providers.

From a sustainability perspective, this evaluation concludes that donors, including USAID, have hindered the emergence of an effective local business development services (BDS) sector that can support SMEs on a commercial basis. The TA providers

broadly agreed that BDS services such as those offered by their own projects have made it more difficult for a local market-based industry to develop, as the current market is distorted by the level of subsidies provided by donors. On the lender side, free TA from donors also likely reduced banks' incentives to build their own capacity to more effectively assess and lend to the SME sector. An over-reliance on donors for free support on both the lender and borrower side may be harming the incentives for building a commercially sustainable BDS sector with a wider reach and the ability to support SME finance. However, as opportunities arise, it is much more expedient to pay for the advancement of such opportunities directly (e.g. offer grants, free technical assistance) without regard to longer-run spillover impacts. Recognizing this, USAID activities need to provide services in a manner that is more cognizant of the distortionary impacts that they may have on local market development.

3.5 Views of women – A gender perspective

Based on the information provided to DCA by partner banks, out of the total 316 borrowers of DCA-backed loans, only 27 (8.5 percent) were women-owned businesses. Despite the problem involved in classifying businesses by specific sector, about 51.9 percent of the women DCA-backed borrowers were engaged in health, followed by agriculture (22.2 percent), the tourism sector (14.8 percent), and trade/commerce (11.1 percent). Among the different partner banks, Bank of Abyssinia and Nib Bank each lent to 37 percent of the women-owned businesses, followed by Dashen Bank (14.8 percent) (see Table 4).

There has only been one DCA guarantee in Ethiopia that explicitly targeted women-owned businesses, which was signed in 2008 with maximum loan coverage of $4.28 million. An internal project review of this LPG was carried out in 2013, which found that the DCA

Courtesy of Leila Ahlstrom, USAID Development Credit Authority

Dairy entrepreneur named Mulu Negash and her son. Only 8.5 percent of borrowers are female-owned businesses.

Table 4 Number of borrowers under DCA guarantees by sector and bank

Sectors	Awash Bank		Awash Bank		Coop. Bank of Oromia		Dashen Bank		Nib Int. Bank		Oromia Int. Bank		Zemen Bank		Total	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
Agriculture	2	0	16	1	11	0	25	3	8	0	3	1	5	1	70	6
Education			5	0											5	0
Energy			1	0											1	0
Health			11	4					40	9					51	14
Manufacturing					3	0									3	0
Other services			1	0											1	0
Tourism			4	3			13	1	1	0					18	4
Trade/ commerce	42	0	47	2			33	0	2	0	2	1			126	3
Transportation							1	0							1	0
NA			33	0									1	0	34	0
Total	44	0	118	10	14	0	72	4	51	9	5	2	6	1	310	27
														Total		**337**

Note: M= male; F= female.

guarantee 'successfully demonstrated the business case that women are credit worthy'. While the good number of loans (29) and low default rate (just one claim) was encouraging, utilization never achieved a significant level (just 41 percent) and a number of the loans were to repeat borrowers, which signaled a continued hesitancy by Bank of Abyssinia in lending to women-owned businesses. The key reason cited by the 2013 report was a lack of TA support from a dedicated USAID implementing partner. This provides more evidence of the importance of TA to support DCA guarantees, but it is also evidence of the lack of capacity or perhaps interest of banks in utilizing DCA products without active USAID involvement and the greater importance of the relationship rather than the product.

In general, women we interviewed did not feel as if they were at a significant disadvantage for obtaining access to finance from commercial banks. They also generally did not feel at a distinct disadvantage in conducting commercial activities and felt that under DCA guarantees it was generally no more difficult for a woman to be a successful entrepreneur compared to a man. However, we admit to strong availability bias in this regard, since the businesses of most of the women we met were performing relatively well.

One area of disadvantage that was highlighted was in social interaction, both with lenders and clients. Business in Ethiopia is fueled by social events, including going out for coffee, alcoholic drinks, and sharing food. It is not socially acceptable for a woman to undertake this kind of social interaction with men, unless perhaps in the presence of a husband or male family member. For example, while we noted above that some potential borrowers have resorted to offering bribes to bank evaluators in exchange for better estimations, at minimum it is expected that bank officials will be treated to food and beverages and a solid social relationship built. This is much more difficult for women given the disproportionate share of men in banking, and it places them at a significant disadvantage in the Ethiopian business world.

An identified area of importance was business associations for women, which can be an effective source for knowledge sharing. These organizations are mostly local in nature and many of them are new. Most of these associations have revolving savings funds that can serve as an effective alternative to commercial and MFI lending for smaller borrowers.

4. Assessment of outcomes and impact of the DCA program

Building on the stakeholder interviews described above, the outcomes and impact of the DCA program are assessed along six main dimensions: appropriateness of the design; utilization; credit additionality; financial sustainability; program sustainability; and impact on the beneficiaries.

4.1 Appropriateness of the design

Overall, the DCA program was found to have been effective at meeting its primary objective of incentivizing commercial lenders to serve new clients targeted by the guarantees. There is a near consensus among both borrowers and lenders that the DCA program, while less effective in altering the terms of loan agreements in the form of reduced collateral requirements, successfully 'opened the door' to previously under-served clients by prioritizing their applications. However, in the current market environment serious questions have been raised about the sustainability of the design and the need to reconsider various aspects of the DCA model.

DCA has a clear objective of not crowding out market-driven interventions by providing subsidized credit or other below-market financial products and services. It has the wider objective of fostering competitive behavior among participating banks (changing their institutional attitude towards lending to SMEs and other new clients) and supporting a sustainable deepening of the financial sector, which will ensure the delivery of loans to SMEs after the termination of the project. The banks are partners of DCA and are expected to benefit from the project by assisting them to open up new markets for profitable commercial operations. On top of the guarantee, the program emphasizes the importance of technical assistance to borrowers, and less so to banks, normally provided by parallel USAID projects that are operational in the country. The TA was found to be of high quality on average, but numerous gaps existed, especially regarding a systematic plan to build the capacity of partner banks. By reviewing many credit guarantee schemes implemented by development partners in different countries and the experience in Ethiopia, the team found that, overall, the DCA model is more effectively designed and can serve as a benchmark for other credit guarantee schemes in Ethiopia.

The largest exogenous challenge facing the DCA program in Ethiopia is the shortage of commercial bank liquidity, driven by the large demand for loanable funds due to recent high economic growth rates, lack of foreign competition, and the requirement since April 2011 for commercial banks to purchase low-yield DBE bonds worth 27 percent of the principal value of all loans made. The incentive of commercial banks to seek out new and perceived higher-risk clients is therefore greatly diminished, as is the ability of DCA to alter this dynamic. For example, some current partner banks report little interest in continuing to support the agriculture sector given the higher perceived risks. In the current commercial lending environment, the design of the DCA program is becoming less relevant, although the program is still important for redirecting limited liquidity toward targeted borrowers given their ongoing need for access to finance.

4.2 Utilization

USAID/Ethiopia began sharing bank risk under DCA in 2004 and has since signed 17 guarantee facilities through the end of fiscal year 2015 with seven private financial institutions and one private corporation. Since the initial DCA guarantee in 2004, USAID/Ethiopia has enabled more than US$90,604,045 in credit to SMEs in the agriculture and health sectors, at a USAID subsidy cost of $9,061,929, leveraging approximately $10 of private sector financing for every $1 of USAID funds obligated. As of March 2016, the total cumulative utilization was $47,369,550. Although the utilization rate varied from bank to bank and depended somewhat on the age of the guarantee, the average utilization rate for past and current agreements was about 53.3 percent, and 83.8 percent for expired agreements only. To date, under the various DCA guarantees, a total of 316 beneficiaries accessed loans from banks. About 41.1 percent of the beneficiaries of

DCA were engaged in trade/commerce, followed by agriculture (24.7 percent), the health sector (23.4 percent), and tourism (7 percent). Bank of Abyssinia extended about 30.4 percent of DCA-backed loans, followed by Dashen Bank (24.4 percent) and Nib International Bank (21.8 percent). Out of the total borrowers, only 8.5 percent were identified by partner banks as being female-owned businesses.

Out of the 316 borrowers under DCA-backed loan, 37 percent were first-time borrowers. This compares with a global average of 22.7 percent, so Ethiopia has done comparatively well. Out of the 117 first-time borrowers, 51.3 percent were engaged in establishing private facilities in the health sector, followed by the agriculture sector (25.6 percent), with tourism and trade/commerce tied at 10.3 percent. Nib Bank had the highest ratio of first-time borrowers (41.9 percent), followed by Dashen Bank (32.5 percent) and Bank of Abyssinia (12 percent) (Annex 5).

The largest factor affecting the few instances of low utilization has been sector strategy shifts within partner banks. For example, both Dashen and Abyssinia banks made the decision to shift out of the agriculture sector due to increased perceived risks, while the latter also no longer wishes to do business with diaspora borrowers for similar reasons. DCA products need to ensure the coherence of bank strategies with the objectives of DCA and the development objectives of the mission, as well as the durability of those strategies prior to making future agreements.

4.3 Credit additionality

There was a clear consensus among borrowers that DCA enabled them to access finance that they otherwise might not have been able to access, but these views ranged in degree. Some claimed that accessing finance without the DCA guarantee in place would have been 'unthinkable' for them. Others considered that they could have accessed finance without DCA, but felt that DCA reduced the time and inconvenience of obtaining finance. To a lesser extent, borrowers felt that DCA likely increased the amount of the loan that they were able to obtain, as well as the required collateral. Our interviews with banks confirmed these beliefs, as all claimed to prioritize DCA loan applications, often with documents being sent directly to a Vice President's office. All banks also claimed that the DCA guarantee generally enabled them to lower collateral requirements and/or increase the amount of the loan available, which also coincides with some of the borrowers' beliefs.

Overall, the DCA facility has been somewhat successful in achieving credit additionality by lending to 117 first-time borrowers or 37 percent of the DCA-backed loans. The senior executives of the partner banks understand that there is a strong need to extend loans to SMEs and new clients in order to meet the country's growth and transformation objectives. Yet, while some banks have a strategy to provide financial services to the missing middle or SMEs, others have no such formal strategy. There was a general agreement that DCA incentivized their banks to extend loans to the targeted sectors under the agreement (e.g. SMEs in the agricultural value chain, private health service providers, women entrepreneurs, and diaspora), even though lending to these areas was perceived to be risker and less profitable and also required additional staff time. Without DCA, the banks would likely have continued to lend to preferred and larger clients, especially exporters given the current foreign exchange premium.

4.4 Financial sustainability

Formal attempts have not been made by partner banks to estimate the financial cost and benefits of implementing DCA-backed loans. However, in general, it is the relationship with USAID and its implementing partners, rather than the guarantee product itself, that is more highly valued, as many bankers do not consider the guarantee products to be profitable on a stand-alone basis. Partner banks enjoy USAID's ability to offer technical assistance to qualified clients and refer them to the bank; to connect the bank with a wider universe of stakeholders; and to offer capacity building to their institution; as well as the perceived prestige of working with USAID, which gives them a corporate social responsibility role that they can highlight.

While DCA guarantee products often lower required collateral, in practice collateralization rates of loans under the DCA program often exceed 100 percent and normally run much higher, depending on the type of collateral offered, normally the primary residence of

Courtesy of Leila Ahlstrom, USAID Development Credit Authority

Construction of a new hatchery buildings from loan proceeds.

smaller borrowers. Since DCA pays claims on 50 percent of the remaining principal balance of a defaulted loan only after collateral has been collected, when realized collateralization rates exceed 100 percent, DCA products have no real financial value when the bank is able to fully liquidate seized collateral.

Another way to estimate the financial sustainability of the DCA facility is to compare the non-performing loan (NPL) ratio of the DCA-backed loans with the general portfolio of the bank, which is generally less than 2 percent. With the exception of Abyssinia Bank, bank executives reported that the NPL ratio of DCA-backed loans and regular loans are about the same. The low default rate of DCA-backed loans can be attributed in part to increased oversight and risk management (putting in extra effort to support DCA borrowers), which has been consistently observed given partner banks' clear preference for the program to be seen as successful. On the other hand, borrowers accused banks of undervaluing the collateral of borrowers, thereby increasing collateralization rates and greatly increasing the cost of default for borrowers. The low default rate could also reflect the fact that some DCA loan portfolio guarantees are not reaching the smaller and riskier SMEs. However, there are increasing indications that the NPL rate is increasing, especially in the DCA-targeted agricultural sector – due in large part to the effects from the El Niño-influenced drought. Even so, many banks appeared to be reluctant to submit claims under DCA due to lack of understanding of the process, full collateralization, and worries about USAID's perception.

4.5 Program sustainability

Some partner banks reported that their overall SME portfolio has increased as a result of the DCA-backed loans and that their targeted sector portfolio will continue to grow (e.g. Nib Bank in the health sector), indicating program sustainability. However, others felt they no longer needed to take perceived additional risks and indicated that they planned to exit DCA-targeted sectors (e.g. Abyssinia, Zemen, and Dashen Banks in agriculture, largely due, however, to exogenous factors, mainly the 2015 drought).

Courtesy of Leila Ahlstrom, USAID Development Credit Authority

One of DCA's most successful beneficiaries, Ethio Chicken produced 3.2 million chicks in 2015 and hopes to double that number for 2016.

On top of the perceived risk, lack of individual credit-scoring systems, and inadequate methods to value collateral, the lack of liquidity in the banking system is the main constraint faced by partner banks to offer financing to SMEs in the targeted sectors on a sustainable basis after the termination of the DCA facility. While real interest rates have risen recently, they cannot rise enough to offset demand, creating a shortage, in turn leading to credit rationing. Banks have little appetite for accepting increased risk in this environment, and even complain that DCA only covers 25 percent of the principal value of a loan if half of that value is secured as collateral, an admission that they expect to assume very limited risk. Another effect of credit rationing has been a perceived rise in corrupt practices. Since access to finance is scarce, many potential borrowers (including some DCA beneficiaries) have resorted to offering bribes to credit evaluators in exchange for a more favorable estimate of their collateral.

Partner banks have demonstrated interest in developing new financial products and methods of collateralization to support SMEs or new borrowers under the DCA facilities. However, progress on this front has been uneven. Property, and in particular primary family residences, serve as the main source of collateral for smaller borrowers. Offering primary residences as collateral normally means that collateralization rates exceed 200 percent of the value of the loan. It is also a significant deterrent to borrowing for many people. The smaller borrowers we spoke with told us how large a risk this was for them.

Although there have been some attempts by partner banks to establish a separate SME lending unit, this was generally not prioritized. All banks reported that they at least have a plan to establish a separate unit for SMEs and train their staff on SME financing.

4.6 Impact on the beneficiaries

There was a clear consensus among borrowers that access to finance was the most binding constraint to growing their businesses. Borrowers who were experiencing troubles with their business blamed these

Box 3 The high potential impact of loan guarantees: The case of Ethio Chicken

'A chick for every Ethiopian'. That aspirational target of producing 100 million day-old chicks is Ethio Chicken's production goal for 2020, and is a testament to the company's remarkable growth to date. Founded by Americans David Ellis and Joseph Shields, the company transformed a former government-owned poultry farm into a profitable enterprise within a few short years. We met with Dr. Berhane, its site manager, and Dr. Banares, its Chief Veterinarian, at the company's farm in Mekelle. After facing slow expansion and challenges in 2012–2013, the company expanded rapidly beginning in 2014. Now with three breeding facilities throughout the country, approximately 160 full-time employees, and a network of 1,000 agents, Ethio Chicken produced 3.2 million chicks in 2015 and is targeted to double that number for 2016. They are on target to produce 25 million chicks by 2017, or a chick for every Ethiopian family.

In 2014, USAID/Ethiopia entered into a US$2.25 million non-revolving Portable Guarantee Commitment Agreement with AGFlow Ventures. This seven-year, 50 percent portable guarantee aims to increase access to finance for AGFlow Ventures and Mekelle Farms, enabling them to meet their goals of further expanding in the north of Ethiopia, as well as opening up new chicken production facilities and distribution networks in the south of Ethiopia. In July 2014, AGFlow notified USAID of its intention to enter into a loan agreement with Zemen Bank, with the first tranche of the PG converted to an LG with Zemen in March 2015. The second tranche for approximately US$1 million awaited Zemen's completion of its due diligence process in 2016. The loan has allowed Ethio Chicken to construct new facilities, which were nearing completion during our visit.

With its own breeding and hatching facilities, Ethio Chicken sells its day-old chicks and pre-mixed feed to agents who then raise them to maturity, aged 45 days. Agents are trained in how to nurture the chicks into maturity, what to feed them, and how vaccinate them. From there, agents sell the chickens to end-users, primarily smallholder farmers. Most agents are located in the Tigray region, but Ethio Chicken is seeing a strong growth in demand in the south as well. Most agents purchase 3,000–4,000 chicks at a time, although some buy as few as 200–400 chicks and some buy as many as 10,000. Each chick costs 22 Birr or about US$1. In addition to its growing agent network, Ethio Chicken is also partnering with local research centers and universities.

Courtesy of Leila Ahlstrom, USAID Development Credit Authority

Despite its many successes, Ethio Chicken continues to experience certain challenges of doing business in Ethiopia, including the need to import approximately 80 percent of equipment and medicines, and all chicken parent stock, despite shortages in foreign exchange. Ethio Chicken also faces challenges in getting good quality feed for its chicks. However, its biggest challenge is meeting demand, as attitudes toward chicken consumption are changing within the country. Whereas chicken used to be consumed only on special occasions, it is now becoming more commonly consumed on a daily basis. Ethio Chicken is continuing to look for additional debt financing in order to expand its business.

on the inadequate amount of finance that they were offered by the banks. Business and investment licensing was the second most cited constraint. Accessing finance was found to be very important and effective at spurring business growth. Most beneficiaries of DCA were experiencing success, and these all agreed that access to finance through the DCA facility led directly to significant profit increases, employment growth, and increased assets which would enable their firms to access additional finance. Some beneficiaries have also reported that they built additional infrastructure and expanded their residential houses after accessing the DCA-backed loans.

In general, we noticed that smaller borrowers seemed less concerned with interest rates and more concerned with the time and bureaucratic inconvenience in accessing finance and the limited amount of principal they could obtain. For most first-time borrowers, the entire process took well over one year, sometimes longer. Some of the small borrowers we interviewed could not recall the interest rate they were paying on their current DCA-backed loan, and in fact appeared unconcerned with that figure. We interpreted this as evidence of the strong growth environment and high rates of return to capital in Ethiopia at this time. On the other hand, larger borrowers of DCA-backed loans appeared to worry less about the time and cost to access finance (likely because of a strong credit history and pool of assets) and much more about the rising interest rates they were paying on the facilities.

The unique experience of AGFlow Ventures PLC (aka Ethio Chicken) in Mekelle is a good example of how a DCA-backed loan guarantee can create employment opportunities for hundreds of people along a supply chain within a short span of time (see Box 3). The project created demonstration effects in a new sector, and the larger investment resulted in considerable spillover benefits for SMEs. Overall, since DCA borrowers were able to grow their businesses and improve profitability, DCA achieved its objective in terms of additionality and value added.

5. Conclusions and recommendations

The preceding section describes our main findings along six major program dimensions. Overall, our conclusion is that DCA guarantees in Ethiopia have proved to be effective in enhancing access to finance among under-served sectors and borrowers per its stated objective. At the same time, a number of issues were identified that challenge the DCA product's effectiveness and sustainability. While many of these issues are exogenous to the DCA guarantee and do not reflect poor guarantee design, moving forward the DCA guarantees will need to adjust to match the realities of the current and short- to medium-term financially constrained environment in Ethiopia. Some issues require concrete action to improve the effectiveness of the guarantees and address the financial needs of targeted borrowers across various sectors. Recommendations are summarized as follows. USAID and its partners should:

- *Increase their scrutiny of LPG agreements given the current liquidity-constrained environment in Ethiopia*: The limitations of DCA products in the current environment should be recognized. Only if there is demonstrated availability of liquidity and a clear willingness to serve targeted clients should a new LPG be considered.
- *Insist on partner banks establishing a separate unit and dedicated staff for financing borrowers targeted under a guarantee:* One of the approaches to incentivize banks is linking the technical support of USAID to the would-be established unit and dedicated staff. To this end, the terms of the legal agreement between USAID and a partner bank could obligate the establishment of a specialized unit by that partner bank to support targeted borrowers.
- *Improve performance monitoring and consider impact evaluations*: Throughout the life of the DCA program, the only performance indicators gathered have been numbers of loans, size of loans, interest rates, size of collateral, numbers of first-time and women-owned borrowers (sometimes), and utilization rates. A more comprehensive results framework should be developed for future guarantees that includes, for example, variables such as changes in the bank's overall lending portfolio, average collateral reductions with respect to non-DCA-backed loans, and number of entrepreneurs and bankers trained in connection with the program. DCA should also actively encourage surveys of borrowers that would collect baseline data about their business and follow-up in order to collect impact-level data on variables such as changes in business and family income following access to finance. Partner banks should offer such baseline information about their clients and USAID implementing partners should follow up between one and three years after loan disbursement with a brief survey.
- *Support banks to change their collateralized lending approach*: Given the challenges of meeting the collateral requirements of banks, the absence of a collateral registry for movable assets, and ineffective enforcement of contracts in case of default, banks require technical support and incentives to implement different financing technologies such as small business credit scoring, financial statement lending, relationship lending, factoring, asset-based lending, leasing, and fixed asset lending. USAID should use technical assistance providers to support efforts to move banks away from their preference for property as collateral.
- *Improve the quality of technical support and link it to concrete operational changes in the banks:* Partner banks perceived the existence of a moral hazard problem, as many borrowers believed that because their loan was under a USAID-backed program there must be a grant component, reducing incentives to repay the facility. Going forward, USAID technical assistance should ensure that general information about the DCA program is provided to borrowers and is clearly understood. Rather than providing one-off training to the banks, USAID should look to support banks to

institutionalize training and improve the quality of internal bank training. The value addition and performance of the capacity-building support to banks and borrowers varied significantly from one TA provider to another. There is a need to share the experiences of the TA providers by discussing their experiences and challenges in regular workshops.

- *Improve the sustainability of business development services (BDS)*: USAID and other donors, which provide the majority of value-added services for DCA guarantees, are distorting the BDS market with the largely free services that they arrange for borrowers. Donors should focus on nurturing the local development of this market by working directly through local BDS providers and introducing cost sharing with borrowers, with a longer-term plan to phase out all subsidies.
- *Increase support for loan guarantees*: USAID should focus more on loan guarantees that have a clear potential to 'crowd in' private investment and make a relatively large impact in terms of spillovers that include employment growth, benefits to SMEs in the value chain, and demonstration effects in a new sector.
- *Address prohibited practices in the partner banks:* USAID will need to communicate with partner banks that such practices as paying bribes to loan officers will not be tolerated and could result in the immediate termination of the agreement. USAID also needs to increase communication with partner banks to ensure that they are aware of and in compliance with USAID rules and regulations, such as the provision of prohibited services.

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Annexes

Annex 1: Public policies for micro-, small and medium enterprises (MSMEs)

In Ethiopia, MSMEs have emerged as the most important multipliers and catalysts in socio-economic development and economic diversification. In addition to creating employment opportunities at low cost (labor intensive) and training entrepreneurs (encouraging indigenous entrepreneurship), they have huge potential to: add value in the manufacturing sector and to GDP, generate export earnings, increase per capita income and output, enhance regional economic balance, create a competitive price structure, promote effective resource utilization, providing a source of livelihoods for the majority of low-income households, and to ensure equitable distribution of income. MSMEs also play an intermediary role in the development of large-scale enterprises and diversification of the industrial structure, and contribute towards the transformation of the rural economy. During the first Growth and Transformation Plan (GTP I), MSMEs were given strategic focus by the Ethiopian government due to the role that they play in the country's industrial development plan and in the creation of employment opportunities in urban centers, with the ambitious objective of 3.4 million jobs expected to be added to this segment over the five-year GTP period and training provided to over 3 million operators (World Bank, 2014a).

GTP II (2015/16–2019/20) has a broader objective of realizing the vision of becoming a lower middle-income country by 2025 and meeting the post-2015 sustainable development goals (SDGs). Increasing the productive capacity and efficiency of the productive sectors (agriculture and manufacturing industries) and enhancing the transformation of the domestic private sector are two of the key vehicles for achieving the objectives of GTP II. The program reiterates the need for concerted effort by government to increase private sector investment (domestic and foreign) and accelerate inclusive economic growth underpinned by job creation, export promotion and technology transfer. GTP II also emphasizes the expanding development of small- and medium-scale manufacturing by providing incentive packages and access to finance, and creating a favorable environment for doing business. Particular attention will be given to nurture micro- and small enterprises, support their transition to medium- and large-scale enterprises, and ensure that investment goes to productive sectors. Supportive measures will be taken to encourage trade and service enterprises to invest in the manufacturing sector for sustained growth and economic structural transformation (Federal Democratic Republic of Ethiopia National Planning Commission, 2015).

During the five-year GTP II period (base scenario), real GDP is projected to grow at an annual average rate of 11 percent, while the contribution of the agriculture, industry, and service sectors to GDP are projected to increase at an annual average rate of 8 percent, 20 percent, and 10 percent respectively (Table 5). The manufacturing sub-sector, medium and large-scale industries, and micro- and small enterprises are expected to grow annually, on average, by 21.9 percent, 21.8 percent and 22.3 percent respectively. By the end of GTP II (2019/20), the contribution of the agriculture and service sectors to GDP are projected to decline to the level of 33.5 percent and 44.3 percent respectively, while the industry sector increases to 22.3 percent. With the primary objective of increasing production and productivity, expanding exports, ensuring transfer of technology and employment creation, the contribution of the manufacturing sector to GDP is projected to grow from 4.8 percent in 2014/15 to 18 percent by the end of 2025. The employment opportunities created through medium and large enterprises will increase from 380,000 persons in 2014/15 to 758,000 persons in 2019/20. Moreover, the contribution of industry to exports is projected to increase from 10 percent in 2014/15 to 25 percent in 2019/20, and 40 percent in 2025.

The projected targets of the manufacturing sector in GTP II will be achieved through the deliberate and

Table 5 Projected GDP growth rates and the contribution of the sectors and sub-sectors to GDP during GTP II (2015/16–2019/20), base scenario

Sectors/sub-sectors	Projected GDP growth rates (%)			Contributions of sectors/sub-sectors to GDP (%)		
	Base line growth rate (2014/15)	Projected growth rate in 2019/20	Average annual projections (2015/16–2019/20)	Base line (2014/15)	2019/20	Average annual projections (2015/16–2019/20)
Agriculture	6.4	7.8	8.0	38.5	33.5	35.4
Industry	21.7	18.4	20.0	15.1	22.3	19.4
Manufacturing	15.8	23.4	21.9	4.8	8.0	6.3
Medium and large-scale industries	20.3	23.4	21.8	3.7	5.9	4.9
Micro and small industries	2.9	23.5	22.3	1.1	1.8	1.4
Service	10.2	9.6	10.0	46.3	44.3	45.1
Overall	10.2	10.8	11.0	100	100	100

Source: Federal Democratic Republic of Ethiopia National Planning Commission (2015).

coordinated support given to the agro-processing enterprises. Moreover, all-round support will be given to promote the manufacturing sector in the following areas: (a) develop and expand industrial parks and cluster; (b) improve the efficiency of the bureaucracy and address the regulatory hurdles for private investors; (c) provide tax incentives; and (d) improve access to loans and hard currency. Government banks (Development Bank of Ethiopia and Commercial Bank of Ethiopia) are given the responsibility of availing loans and hard currency to investors in the manufacturing sector. The two banks are expected to give priority lending to manufacturing enterprises producing their products for export and government; through NBE, the government will supervise the proper utilization of loans and hard currency generated through private banks. The branch network of banks (government owned and private) will increase from 2,868 in 2014/15 to 5,736 in 2019/20. Microfinance institutions are expected to provide 21 billion Birr to MSE operators and to reach at least 50 percent of the Kebeles in the country, within the GTP II periods. In GTP II, Development Bank of Ethiopia is given the responsibility of providing finance to medium-sized enterprises and lease financing services to medium and large enterprises in the country.

Annex 2: Credit guarantee initiatives in Ethiopia

Banks and MFIs in Ethiopia shy away from extending credit to MSMEs, which have hardly any property collateral. When the finance providers have not been successful in meeting the financial needs of the MSMEs, credit guarantee schemes are used to address the collateral requirements, enhance access to credit to targeted sectors, and mitigate the default risk of finance providers. In other words, a credit guaranteed fund will reduce the risk of banks and MFIs in lending to MSMEs and aims to increase lender's interest in this particular segment and to initiate and encourage the learning process through which the commercial banks and MFIs in Ethiopia develop the expertise of lending to MSMEs. As a result, credit guarantee schemes shift the burden of debt monitoring from the lender to the guarantor. According to the World Bank (2014a) study, when banks and MFIs were asked about their view on the directed credit programs of government and credit guarantee schemes, they indicated that partial guarantee projects and the provision of dedicated credit lines associated with technical assistance have a positive impact in encouraging finance providers to engage in SME lending.

Since lending in Ethiopia (particularly bank loans) is mainly collateral based, credit guarantee schemes are important public support programs to provide strong incentives to formal finance providers to address the financial needs of excluded smallholder farmers, MSMEs, etc. The credit guarantee schemes, implemented in Ethiopia in the last two decades, can be categorized into two groups: (i) regional governments and development partners providing guarantees to banks in order to extend loan capital to MFIs and cooperatives; (ii) credit guarantees to banks and MFIs to provide a line of credit directly to the financially excluded population, particularly to riskier clients, activities, sectors, enterprises, etc., without collateral.

Regional government credit guarantee to Commercial Bank of Ethiopia

The objective of the credit guarantee of regional government to CBE is to improve financial access (credit) to chronically food insecure households (implement the Household Asset Building Program [HABP]), facilitate input supply, particularly fertilizer, and provide credit to MSE operators. The regional governments start the process by estimating the amount of loan capital needed by MFIs and cooperatives to implement food security programs such as HABP and the fertilizer needs of other farmers, and to import fertilizer through cooperatives or Agricultural Input Supply Enterprise (AISE) in a given planned period. Before submitting their credit guarantee request for CBE to the Ministry of Finance (MoF), the parliaments of the regional governments are expected to approve the loan request. Once the parliaments approve, the regional governments submit their request to MoF to issue guarantee letters to CBE. The MoF provides a credit guarantee to CBE and takes the responsibility of paying the lending bank (from their allocated annual budget) in the event of default of MFIs or cooperatives. After receiving the credit guarantee letter from the MoF, CBE processes the loan request of MFIs or cooperatives. In such an arrangement, the risk to CBE, MFIs and cooperatives is zero. However, since the regional MFIs and cooperatives are the development partners of the regional governments, they have huge responsibility to ensure the repayment of the loans and minimize default rates. Once the MFIs and cooperatives receive the loan capital, they will deliver the credit to eligible clients. Although the current default rates are very low, CBE is facing a serious challenge of liquidity because of the delays of regional governments in settling their fertilizer and food security loans on time. It should be also noted that although there is the support of the regional governments, MFIs and cooperatives are entirely responsible in pre-loan screening and post-loan follow-up to ensure 100 percent repayment.

Donors offering guarantee facilities to banks

KfW (capital link) provided guarantee facilities for banks to on-lend to MFIs. The total project value was £6 million, of which £4.5 million was allocated for the guarantee and £1.5 million for technical assistance. Although four private banks signed an agreement with KfW, only two participated in the project. The two banks disbursed 80 million Birr of loans to 12 MFIs. The facility of KfW was a partial guarantee of maximum 50 percent and MFIs paid a 2 percent guarantee fee to KfW, which was added to the guarantee fund. However, one of the loans from Oromia International Bank to Addis Credit and Saving Institution was agreed at 25 percent guarantee. The interest rates of the loans to MFIs were based on commercial rates, without subsidy. Technical assistance (TA) was provided to both banks (to increase understanding of the MFI sector and risk associated with the wholesale loan) and MFIs (on individual MSEs and others) (Triodos Facet and First Consult, 2013). Although there was huge demand, the facility had challenges as MFIs negotiated for lower interest rates to cover the high transaction costs of lending to small and riskier firms.

USAID/ Ethiopia has a long history with DCA in supporting financially excluded households, institutions and enterprises to access loans through portfolio guarantee projects. In 2004, USAID funded DCA's portfolio guarantee project to facilitate increased lending to SMEs in Ethiopia (through partner private banks), both in terms of value of loans and number of loans to agricultural value-chain actors, diaspora and women-owned businesses. There were also other credit guarantee schemes such as IFC partial guarantee (75 percent) to Nib Bank for coffee farmers. Terafina had a credit guarantee facility to selected MFIs through the

CBE. Cordaid provided a partial guarantee facility to Wosasa MFI through CBE. Aspire project on the honey value-chain established a cash guarantee setup with the Cooperative Bank of Oromia to facilitate lending to firms in the value chain. Enat Bank initiated an innovative facility to women entrepreneurs without collateral by using a guarantee of depositors from the public.

Credit guarantee scheme established by regional governments and MFIs

MSEs in Ethiopia have serious difficulties in meeting the property collateral requirement of MFIs. To this end, the MSE development strategy and the saving and credit policy of MFIs have identified different types of credit guarantee options to substitute for the property collateral requirement, which include: credit guarantee fund (established by the regional governments and MFIs); group guarantee; institutional guarantee by city and Woreda administrations; family guarantee; tripartite guarantee or guarantee arrangement among the three parties (suppliers, MFIs and MSE operators); third-party guarantee by a salaried person; warehouse receipts; and clean loan (without collateral) on the basis of a viable business plan for new and innovative business ideas. It should be noted that credit can be extended to growth-oriented MSEs without collateral through the guarantee scheme established by the regional governments and MFIs, after meeting the 20–15 percent saving requirement before accessing the loan. On top of mandatory credit life insurance, MSE operators are expected to insure their property collateral before accessing the loan.

As per the five-year MSE development strategy, the five region-based MFIs (with significant support from regional governments) established a credit guarantee scheme to reduce the risk of the MFIs in lending to MSE operators that do not have collateral. The credit guarantee scheme is intended to cover both financial loan and lease finance. The regional government, MSE operators, and MFIs are expected to contribute 70 percent, 20 percent and 10 percent of the credit guarantee fund respectively. However, it is the MFIs and the regional governments that share the risk of default. The fund is deposited in a blocked account of an MFI and the financing institution is expected to pay 5 percent interest rate on the balance of the fund. The MSE operators must agree to pay a service fee of 1.5 percent in order to sustain the credit guarantee scheme. Although startup enterprises have the opportunity to get full guarantee coverage after meeting the 20 percent regular saving requirement, enterprises involved in the export product and growth-oriented sectors only need to save 15 percent of the loan size to benefit from the credit guarantee scheme. Other types of enterprises (with the exception of growth-oriented and exporting MSEs) are expected to produce alternative collateral to access loans from MFIs. Although the credit guarantee fund was established by the regional governments and the MFIs with good intentions, the implementation was inadequate and misguided. Instead of establishing the credit guarantee schemes as independent facilities or institutions and operating on the basis of best practice, MFIs deliberately managed the schemes as part of their organizational setup and used them as additional tools to partly reduce their liquidity gaps. There is a need to revisit the guarantee schemes in the five regions and restructure them as independent organizations to guide and monitor their implementation.

NBE/DBE's export guarantee scheme

The Government of Ethiopia, through NBE, provides an export guarantee scheme for non-coffee exports to facilitate exporters' access to bank credit with minimum property or other collateral equivalent to at least 40 percent for producer exporters and 50 percent for other exporters on the amount of loan requested. The implementation of the export credit guarantee scheme was transferred from NBE to DBE in 2007.

Annex 3: Establishing lease financing institutions to address the collateral issue

According to the governments' performance assessment of the first three years' implementation of the MSE development strategy, the growth and expansion of the priority or growth-oriented sectors/enterprises, particularly in the manufacturing sub-sector, was far below the planned targets. Lack of financial resources to buy machinery and related investment materials was identified as a key constraint

limiting the engagement of MSE operators in the manufacturing sub-sectors. To address this issue, the government took drastic measures by establishing five lease finance companies in the four regions (Oromia, Amhara, SNNP and Tigray) and Addis Ababa city administration, and allocated a 2 billion Birr bank loan. The implementation of lease financing facilities required: drafting and issuing a new lease financing law, which was issued in less than three months; identifying the appropriate property registering government institution; allocating budget for the companies; identifying the regulatory and licensing institution (NBE); addressing the double payment of the value-added tax (when clients finally buy the machinery); hiring the right CEOs and key staff; providing training and exposing the staff to best practices in the rest of the world (Mauritius and Nepal); and developing the strategic plan, operational and other manuals, etc. However, operationalizing the finance lease companies took much longer than expected.

Annex 4: Definition of micro- and small enterprises in Ethiopia

Level of the enterprise	Sector	No. employees	Net asset
Microenterprise	Industry	≤ 5	≤ Birr 100, 000 ($6,000 or £4,500)
	Service	≤ 5	≤ Birr 50,000 ($3,000 or £2,200)
Small enterprise	Industry	6–30	≤ Birr 1.5 million and ≥ Birr 100,001 ($6,000–90,000 or £4,55–70,000)
	Service	6–30	≤ Birr 500,000 and ≥ Birr 50,001 ($3,000–30,000 or £2,200–23,000)

While the majority of MFIs uniformly uses the MSE definition that is laid out in the first five-year MSE development strategy, commercial banks do not seem to uniformly distinguish among small, medium and large enterprises.

Annex 5: First-time borrowers from a DCA facility by sector and bank

Sectors	Awash Bank	Bank of Abyssinia	Coop. Bank of Oromia	Dashen Bank	Nib Int. Bank	Oromia Int. Bank	Zemen Bank	Total
Agriculture	1	0	0	17	1	3	6	28
Education		0						0
Energy		1						1
Health		11			40			51
Manufacturing			0					0
Other services		1						1
Tourism		0		12	0			12
Trade/ commerce	0	0		8	0			8
Transportation				1				1
NA		0					1	1
Total	1	13	0	38	41	3	7	103

Annex 6: Summaries of loan portfolio guarantees under DCA

Partner name	Target sector	Guarantee summary
Awash Int.Bank	Agri	USAID/Ethiopia seeks to provide two private commercial banks, Awash International Bank (Awash) and Bank of Abyssinia (BOA), with a Development Credit Authority (DCA) loan portfolio guarantee to expand access to credit to the coffee, food grains, horticulture, and livestock/livestock products sectors.
Bank of Abyssinia	Agri	USAID/Ethiopia seeks to provide two private commercial banks, Awash International Bank (Awash) and Bank of Abyssinia (BOA), with a Development Credit Authority (DCA) loan portfolio guarantee to expand access to credit to the coffee, food grains, horticulture, and livestock/livestock products sectors.
	General	As enterprises grow in size, the percentage of women-owned enterprises decreases. Women entrepreneurs named a lack of access to financing as the largest impediment to growth. In order to address this situation and enable women entrepreneurs to grow their businesses beyond the bounds of microfinance, USAID/Ethiopia entered into a $4.28 million loan portfolio guarantee with BoA for women-owned and managed enterprises.
	General	In order to encourage Ethiopian bank intervention with a new investment class, USAID/Ethiopia entered into a loan portfolio guarantee with two banks to promote lending to diaspora. The facility will enable diaspora to access $12.84 million in financing to start businesses in Ethiopia.
	Health	USAID/Ethiopia plans entered into a $13.4 million, ten-year, multi-bank loan portfolio guarantee for private health providers offering HIV/AIDS and TB services. This guarantee will work with two banks, Bank of Abyssinia and Nib Bank, guaranteeing allocated amounts of $4.47 million each, while leaving $4.47 million unallocated.
	Agri	Through this six-year, $7.3 million DCA loan portfolio guarantee with Bank of Abyssinia and Zemen Bank, USAID/Ethiopia aims to support its Feed the Future (FTF) strategy by providing a loan guarantee facility to participating banks. The guarantee will largely serve as a credit enhancement tool for loans extended to agricultural equipment suppliers and leasing companies, which will increase the ability of farmers and other agribusinesses to acquire necessary agricultural equipment, thereby strengthening the ability of farmers and agribusiness enterprises operating in USAID /Ethiopia-supported value chains and regions to move towards mechanization of activities, thus enhancing farming yields.
Coop. Bank of Oromia	Agri	A $10 million competitive loan portfolio guarantee (LPG) designed to encourage lending to Ethiopian agriculture value-chain participants. This investment, in concert with USAID/Ethiopia's crop value-chain program 'Agriculture Growth Program-Value Chain Enhancement' will serve as part of USAID/Ethiopia's flagship Feed the Future agriculture program, while also delivering on USAID's contribution to the Government of Ethiopia's (GoE's) Agricultural Development Program (AGP). USAID/Ethiopia has been tasked as the lead implementer in galvanizing private sector participation in the selected commodity value-chain activities. This guarantee was part of a suite of credit enhancement facilities being designed to support the Mission's agriculture portfolio in 2013.
Dashen Bank	Agri	USAID/Ethiopia plans a $10 million loan portfolio guarantee (LPG) designed to encourage Dashen Bank's scaled-up participation in the bank's pilot insurance-backed agribusiness credit products for cooperatives.

Nib Int. Bank S.C.	General	In order to encourage Ethiopian bank intervention with a new investment class, USAID/Ethiopia entered into a loan portfolio guarantee with two banks to promote lending to diaspora. The facility will enable diaspora to access $12.84 million in financing to start businesses in Ethiopia.
	Health	USAID/Ethiopia plans to establish a $13.4 million, ten-year, multi-bank loan portfolio guarantee for private health providers offering HIV/AIDS and TB services. This guarantee will work with two banks, Bank of Abyssinia and Nib Bank, guaranteeing allocated amounts of $4.47 million each, while leaving $4.47 million unallocated.
Oromia Int. Bank	Agri	A $10 million competitive loan portfolio guarantee (LPG) designed to encourage lending to Ethiopian agriculture value-chain participants. This investment, in concert with USAID/Ethiopia's crop value-chain program 'Agriculture Growth Program-Value Chain Enhancement' will serve as part of USAID/Ethiopia's flagship Feed the Future agriculture program, while also delivering on USAID's contribution to the Government of Ethiopia's (GoE's) Agricultural Development Program (AGP). USAID/Ethiopia has been tasked as the lead implementer in galvanizing private sector participation in the selected commodity value-chain activities.
	Agri	Through this six-year, $7.3 million DCA loan portfolio guarantee with Bank of Abyssinia and Zemen Bank, USAID/Ethiopia aims to support its Feed the Future (FTF) strategy by providing a loan guarantee facility to participating banks. The guarantee will largely serve as a credit enhancement tool for loans extended to agricultural equipment suppliers and leasing companies, which will increase the ability of farmers and other agribusinesses to acquire necessary agricultural equipment, thereby strengthening the ability of farmers and agribusiness enterprises operating in USAID /Ethiopia-supported value chains and regions to move towards mechanization of activities, thus enhancing farming yields. In addition, further qualifying borrowers will be cooperative unions, smallholder farmers, agricultural input suppliers, seed companies, fuel and agricultural equipment providers, transporters, warehouse owners, aggregators, post-harvest processors, smallholder farmers' organizations holding forward delivery – or direct contracts from the United Nations World Food Programme under the Purchase for Progress Initiative.
Zemen Bank	Agri	A $2.5 million facility to increase DCA guarantee authorization limit for Zemen Bank. The new proposed guarantee will enhance Zemen's ability to provide more equipment financing credit, as well as credit to support other DCA-supported value-chain activities, as needed. The total DCA guarantee commitment to Zemen will be $6,155,928 after this follow-on transaction is executed.
	Agri	In 2014, USAID/Ethiopia entered into a US$ 2.25 MM non-revolving portable guarantee commitment agreement with AGFlow Ventures, the holding company of Mekelle Farms, Ethiopia's largest producer of day-old chicks. This seven-year, 50 percent portable guarantee aims to increase access to finance for AGFlow Ventures and Mekelle Farms, enabling them meet their goals of further expanding in the north of Ethiopia, as well as opening up new chicken production facilities and distribution networks in the south. The loan guarantee agreement with Zemen converts a portion of that portable guarantee into a loan guarantee.

Annex 7: Information provided by SHOPS to potential borrowers under DCA for private health facility service providers

What is DCA?
Development Credit Authority (DCA) is a USAID funded program aimed at increasing access to finance for private health facility service providers.

Who implements DCA?
Abt Associate Inc, in Ethiopia provides technical assistance to implement DCA.

What is the objective of DCA?
DCA aims to increase accessibility and improve the quality of health commodities and services focusing on HIV/AIDS and TB services.

DCA facilitates your access to finance
USAID's DCA program works with non-governmental organizations and for-profit enterprises to increase access to finance for private health service providers through training and business counseling. In order to support the private health service providers, DCA has signed guarantee agreements with local financial institutes, Bank of Abyssinia and Nib.

What is the benefit of the program?
DCA uses partial credit guarantees to mobilize local financing. Guarantee agreements encourage private lenders to extend financing to under-served borrowers, like the health sector. As a result of this, banks reduce their collateral requirements to up to 50 percent for the private health service providers.

Important facts about the DCA Program
- USAID shares up to 50 percent of your risk (collateral coverage)
- Banks are using their own capital to lend you the money
- The bank expects the loan to be repaid on the specified time
- Loans are made at interest rates consistent with other products offered by the bank
- Banks will follow their standard procedures for analyzing loan requests
- Only applicants that meet the bank's eligibility and loan documentation requirements will be successful.

Which facilities qualify for a DCA loan?
- Clinics at different levels
- Specialized clinics
- Hospitals
- Nursing schools
- Pharmacies
- Laboratories

Qualifying facilities must provide HIV and TB services and products
- Testing and counseling
- Antiretroviral Therapy (ART)
- Treatment of injecting drug users (IDUs)
- PMTCT testing and treatment
- PEP services
- Family planning counseling and contraceptive methods
- TB screening and treatment
- Treatment of other opportunistic infections (OIs)
- Cotrimoxizole (CTX) prophylaxis)

What services must you offer to qualify you for a DCA Loan?
Facilities must allocate the DCA loan to activities that will increase the types of HIV and TB clinical services being offered
- Purchase to medical equipment
- Infrastructure change – renovation of building
- Distribution of medicine
- Working capital – qualified human resources, improved communication and recording system and more

Services provided by SHOPS Ethiopia to DCA loan qualifiers
- Qualified health providers must prepare feasibility study for loan application by themselves, but they can get advice from SHOPS Ethiopia technical staff free of any fee
- SHOPS Ethiopia technical staff will provide a client-centered consulting approach to review, comment, and provide guidance of the content of your feasibility study
- The final loan application document will be approved and submitted to the DCA banks simultaneously by SHOPS Ethiopia staff
- SHOPS Ethiopia will provide a post-loan monitoring service for proper utilization of the loan

Loan application checklist

If you have decided to apply for a loan using the DCA program, use the following check list to ensure a smooth and productive process.

1. Collect the appropriate documents for your application
2. Use the checklist below to ensure you have everything the bank will ask for to complete application:
   - Business Feasibility Study
   - Bank Loan Application
   - Business Financial Statements
   - Business Certificate
   - Marriage certificate
   - Tax Clearance
   - Resumes
   - Collateral

Make sure the required documents are orderly and accurate. All information you provide will be verified by the bank and the organization guaranteeing the loan.

How can you apply?

If you are interested and eligible for the DCA loan service, contact W/rt Fifa Zerai, SHOPS Ethiopia office:

Haile Gebresellasie Avenue
Yeka Subcity Kebele 11/12
Rebecca Building 5th floor

Phone: 0116 61 3551

E-mail: Fifa_Zerai@phsp-et.com

Please fill in the application form; we will then contact you to schedule an appointment.

Annex 8: Interview schedule

Proposed list of benefciery projects and tentaive time schedule for the Intrview								
ser.Nc	Name of Institution	Region	name of operaional area	Job Title	Lender Institution (Bank)	LPGs Number	Date of Interview	Time
1	Emawish Abebe	Addis Ababa		Owner	NiB Bank-Health	663-DCA-11-006(B) PEPFAR	Feburary 16/16	09:00-12:00
2	Yaya Investment PLC		Bole Airport	owner	Abyssinia-Diaspora owned	663-DCA-08-005(A)	Feburary 16/16	14:00-17:00
3	Orchid Business		Bole Michael	G/Manager	Abyssinia-Diaspora owned	663-DCA-08-005(A)	Feburary 17/16	09:00-12:00
Travel from Addis Ababa to Mekelle on February 17, 2016 from 13:00-17:00								
1	AGFlow Venture PLC	Tigray	Mekelle	G/Manager	Zemen-APG	663-DCA-14-011	Feburay 18, 2016	09:00-12:00
2	Mulu Dairy Farm		Mekelle	owner	CBO-Ag. VC	663-DCA-13-008(A)	Feburary 18, 2016	14:00-17:00
3	Tideg Construction material Shop		Mekelle	Manager	Abyssinia-WEG	663-DCA-08-004	Feburary 19,, 2016	09:00-12:00
Travel From Mekelle to Addis Ababa on February 19, 2016 from 13:00-17:00								
Travel from Addis Ababa to Oromia Region, Bishoftu on February 22, 2016 from 08:00-10:00								
1	Bishoftu FSCs	Oromia	Bishoftu	G/Manager	CBO-Agricultural Value chain LPGs	663-DCA-13-008(A)	Feburary 22, 2016	10:30-13:30
Travel from Bishoftu town to Adama on February 22, 2016 from 14:00-16:00								
2	Getahun Gezahen	Oromia	Adama	G/Manager	Abyssinia-Hiealth LPGS	663-DCA-11-006(A) PEPFAR	Feburary 23, 2016	09:00-12:00
3	Dairy Farm		Adama	owners & Manager	Oromia International bank Agr VC	663-DCA-13-008(B)	Feburary 23, 2016	14:00-17:00
Travel from Adama to Sebata on February 24, 2016 from 08:00-11:00								
4	Yakoneh Hortculture	Oromia	Sebeta	G/Manager	Dashen-Agriculture and SMEs	663-DCA-05-001	Feburary 24, 2016	13:00-16:00
Travel from Sebata to Addis Ababa on February 24, 2016 in the afternoon from 16:00-17:00								
Travel from Addis Ababa to Doddola o on February 25, 2016 from 08:00-13:00								
5	Agr Equip Leasing	Oromia	Doddola	Owner & Manager	Zemen-Agriculture Equipment	663-DCA-11-007(B)	Feburary 25, 2016	14:00-17:00
Travel from Bale to Hawassa on February 25, 2016 from 17:00-18:00								
1	Yirgachefe FCUs		Yergachefe	G/Manager	Abyssinia-Local Business	663-DCA-04-002	Feburary 26, 2016	09:00-12:00
2	Sidama CoffeE FCUs Farmers'		Hawassa		Awash SMEs & Agr LPGs	663-DCA-04-001	Feburary 26, 2016	14:00-17:00
3	Assefa W/Amanuel		Hawassa	Owner	NiB-Diaspora LPGs	663-DCA-08-005(B)	Feburary 27, 2016	09:00-12:00
Travel from Hawassa to Addis Ababa on February 27, 2016 from 13:00-18:00								
1	AGP-LMD Project	Addis Ababa	Megengea	Finance & Inv head	OIB-Agr VC Project	663-DCA-13-008(B)	Feburary 29, 2016	09:00-12:00
2	AGP-AMDE Project		Marathon Building	Finance & BDS advisor	CBO-Agricultural Value Chain LPGs	663-DCA-13-008(A)	Feburary 29, 2016	14:00-17:00
3	Shop Project		Megnagea-Birke B	BDS Advisor	NiB Bank-Health	663-DCA-08-005(B)	01-Mar-16	09:00-12:00
4	Prime Proejct		Piasa-near Taitu	Fiance & Inv Advsor	OIB-Agr VC Project	663-DCA-13-008(B)	01-Mar-16	14:00-17:00
5	Dashen bank		Beklobet	President	Agr VC LPG		03-Mar-16	09:00-11:00
6	Abyssinia Bank		Stadium	President	Diaspora LPG		03-Mar-16	13:00-15:00
7	Oromia Cooperative Bank		Bole		Agr VC LPG		03-Mar-16	15:00:00-17:00
8	Oromia International Bank		Oromia	President	Agr VC LPG		04-Mar-16	09:00-11:00
9	Zemen Bank		Kasanchise	V.President	Agr VC LPG		04-Mar-16	11:00-13:00
10	Nib Bank		Bole	Presdient	Health LPGs		04-Mar-16	14:00-16:00