



Report developed by



AGRI-FINANCE NAVIGATOR

A Snapshot of the Ethiopian Agri-SME Financing Ecosystem

Project Lead:



Partners:



Agri-Finance Navigator

A Snapshot of the Ethiopian Agri-SME Financing Ecosystem

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List of Abbreviations

AACCSA	Addis Ababa Chamber of Commerce & Sectoral Associations
ADLI	Agriculture development-led industrialization
ATI	Agricultural Transformation Institute
BIC	Business Incubation Communities
CASA	Commercial Agriculture for Smallholders and Agribusiness
CBE	Commercial Bank of Ethiopia
COB	Cooperative Bank of Oromia
DAI	Development Alternatives, Inc
DBE	Development Bank of Ethiopia
EED	Ethiopian Enterprise Development
EIB	European Investment Bank
GDP	Gross Domestic Product
GIZ	German Corporation for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit for its German initials)
GOE	Government of Ethiopia
icipe	International Centre of Insect Physiology and Ecology
IDA	International Development Association
MLS	Ministry of Labour & Skills
MCF	Mastercard Foundation
MFIs	Micro Finance Institutions
MOYESH	More Young Entrepreneurs in Silk and Honey Project
MSEs	Micro- and small enterprises
MSMEs	Micro-, small- and medium enterprises
PPP	Public-Private Partnership
RuSACCOs	Rural Saving and Credit Cooperatives
SCAs	Small Credit and Savings Associations
SMEs	Small- and medium enterprises
UGEFA	Uganda Green Enterprise Finance Accelerator
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

Executive Summary

The agriculture sector is vital for Ethiopia's economy, constituting 76% of total exports, contributing to one-third of the GDP, and employing 2/3 of the workforce (Tafesse, 2022). Yet, it has not unfolded its full potential. Indeed, it is comparatively less productive than the agricultural sector in other regions, for example, in East Asia and Central America, where the average yield of wheat is almost double (Tafesse, 2022). Thus, supporting agricultural enterprises through capacity building and facilitating access to finance constitutes a huge opportunity to improve efficiency in the agricultural value chain in Ethiopia.

As such, the core challenge that agri-SMEs (as well as SMEs in general) face is access to finance: Ethiopia ranks 159 out of 190 in the World's Bank Ease of Doing Business Ranking (2019), with the most challenging aspect being getting credit. Challenges arise from the supply side, demand side, and system level. Particularly for agri-business models, there are specific underlying challenges such as the lumpy cash flows experienced, climate-related risks, lack of access to processing facilities, and low economies of scale, which among others lead to a particularly high-risk perception of that sector.

Trends and developments in (agri-) SME financing:

Fortunately, the private and public sector actors have already made some progress in developing policies, frameworks, and financing instruments that benefit (agri-) SMEs' access to finance, including:

- Agricultural policies and frameworks (such as the ADLI [Agriculture development-led industrialisation] strategy, the agricultural sector policy and investment framework 2010-2020) seek to improve agricultural production, rural incomes, and food security, representing an opportunity for the development of agri-SMEs.
- Policies and frameworks that target SMEs (such as the industrial development strategic plan, the micro and small enterprise development policy and strategy, and the start-up proclamation act) further the development in general and provide incentives for start-ups.
- Regulations that encourage banks to invest in SMEs, such as the movable collateral registry. This establishes that all banks should allocate at least 5% of their credit disbursements to SMEs (and individuals and cooperatives in the agricultural sector) against movable property as collateral.
- Commitment of banks and emerging fintech actors towards the SME sector is reflected in the development and offering of targeted solutions. Products are usually implemented in partnerships with development institutions and banks. The products offered are generally loans (with guarantees) that offer special terms (lower interest rates, flexible ticket sizes and repayment conditions, alternative forms, and flexible size of collateral).

Agri-finance landscape gaps:

Still, gaps remain in the agri-finance landscape. Generally, the focus of policies and regulations does not lay in improving finance for agri-SMEs but rather seeks other objectives, such as job creation. On the **demand side, agri-SMEs lack financial management skills** and, in many cases, are unaware of products they can access. On the **supply side, three main gaps remain**. First, there is still a lack of technical assistance tailored to the needs and particularities of agri-SMEs (to improve SMEs' financial management). Second, an insufficient understanding of agri-business models hinders the development of tailored products and services for SMEs. Finally, banks and financial institutions are hard to reach in rural areas due to a lack of infrastructure. Fortunately, the still nascent fintech has great potential to address this issue, even though challenges still exist. For fintech to develop its full potential, a national ID system should include the people in rural areas enabling easy identification for financiers.

Recommendations:

Stakeholders need to address the gaps and support agri-SMEs in the country to maximise their potential. **Financial institutions should broaden their knowledge base about agri-business models** and build up and manifest expertise in agri-SME financing. This can be achieved, for example, through dedicated SME/agri finance departments. Increased knowledge furthers the development of innovative, tailored products beyond lending that consider the specific needs and challenges that agri-SMEs face. To complement tailored products, financial institutions may also include financial literacy capacity building for enterprises.

Intermediaries should develop and offer specific financial literacy training and agri-training to MSMEs. They can further boost the ecosystem by promoting domestic investment and channelling equity and angel investment through readiness programs for enterprises.

The **Government and public institutions should support the regulatory and policy system of the financial inclusion strategy and support the implementation of key strategies and frameworks** such as the National Payment Strategy, the Financial Inclusion strategy, etc. Furthermore, they are encouraged to promote and implement Public Private Partnerships (PPP). These partnerships have the potential to aid in achieving the country's development goals and generate economic growth while ensuring environmental sustainability.

Stakeholders should not only implement recommendations individually but should come together to develop further innovative solutions jointly. For this, we highlight the BIC Agri-Finance Lab as a potential way forward to bring into action the aforementioned recommendations. The Lab aims to facilitate the process to co-create further solutions that deliver capital to agri-SMEs by engaging ecosystem stakeholders over a highly collaborative, multi-step process.



1. BIC Introduction

1.1. Project Background



The project BIC Ethiopia (Business Incubation Communities) seeks to address several bottlenecks in the Ethiopian incubation ecosystem. It targets the lack of sustainable and technically sound business models of existing incubators through regional benchmarking, best practice examples, new revenue models, standardised curricula, and professionalised operations. Furthermore, BIC Ethiopia capacitates business incubators in supporting agri-tech and agri-business start-ups and micro-, small- and medium-sized enterprises (MSMEs) to improve market access, generate higher income, and create jobs. The project collaborates with private financing institutions like banks and microfinance institutions (MFIs) to facilitate out-of-the-box thinking to create new financial access opportunities for MSMEs. As part of improving finance opportunities for MSMEs, this Agri-Finance Navigator seeks to analyse the financial ecosystem and services, analysing current gaps, providing recommendations to tackle these, and highlighting financing opportunities that can benefit and be accessed by MSMEs in the agricultural sector, the target group of BIC Ethiopia.

2. Methodology of the Study

The BIC Agri-Finance Navigator provides insights into the status quo of financing for agri-SMEs in Ethiopia by mapping the actors in the country's financial ecosystem and the product/service portfolio offered to agri-SMEs. The document also draws up recommendations tailored to the interests of the relevant target groups (agri-SMEs, financial institutions, intermediaries, and public institutions). This report relies on the collection of quantitative and qualitative data obtained through interviews with key project stakeholders and experts within the Ethiopian agri-SME context. The interviews focused on the supply side of financing for agri-SMEs to complement existing studies that have assessed both demand- and supply-side of agri-SME finance and fill the gap of providing an action-oriented overview useful for SMEs themselves that seek access to debt capital. Thus, it covered a broad range of categories to map the Ethiopian agri-SME financing landscape in terms of stakeholders' motivations for agri-SME engagement and to find out about available financing instruments. The interview outputs were analysed, and secondary research was used to complement the collected primary data.

3. Overview of Stakeholders

The agri-SME financing landscape in Ethiopia is composed of many different actors besides the enterprises themselves: mainly financial institutions and intermediaries. These are supported by the government and public institutions through a policy framework that strives for economic growth in the country. Agri-SMEs are categorised into two subgroups which constitute the target group of BIC Ethiopia: agri-business and agri-tech SMEs. Intermediaries include industry associations, incubators/accelerators, and financial institutions comprising bank and non-bank institutions. In the latter category, there are insurance companies (18¹, with one being state-owned (Business Info Ethiopia, 2021)); microfinance institutions (40² in operation, with the five largest ones being owned by regional governments); small saving and credit associations (SCAs); leasing companies³, equity firms, and pension funds. Finally, the banking sector comprises 28 commercial banks⁴ and one development bank, with the majority being privately owned but still being dominated by state-owned banks, namely by the Commercial Bank of Ethiopia (CBE) (Economisti Associati, 2013). Within the broader finance ecosystem, there is also a very nascent fintech ecosystem, which plays an important role as the mobile money environment drives access to finance through digital financial services (Santosdiaz, 2022). Fintech is currently growing at unprecedented rates in the country, mainly due to the approval of a Directive (Payments Instruments Issuers), which allows local non-bank actors to offer mobile money services (Africa Fintech Summit, 2020).

The key players in the agri-SME finance ecosystem are those willing or already offering products and services that allow agri-SMEs to access finance and grow. Key government institutions include the Ministry of Labour & Skills (MLS) (previously Jobs Creation Commission) and the Agricultural Transformation Institute (ATI). The latter, for example, formulated the Input Voucher Scheme, through which MFIs or Rural Saving and Credit Cooperatives (RuSACCoS) issue cash or credit vouchers as loans to farmers to redeem inputs at nearby cooperative stores.⁵

Within the industry associations, the Addis Ababa Chamber of Commerce & Sectoral Associations (AACCSA) plays a key role. Known as Addis Chamber and being the strongest Chamber in Ethiopia, it has more than 15,000 member companies and a wide spectrum of businesses based in the capital city, constituting more than 60% of all businesses operating in the country (AACCSA, n.d.). Furthermore, it advocates for a conducive business environment. Through its direct involvement in BIC Ethiopia, it aims at to establish a business incubator to further the development of agri-enterprises in the country. Incubators who receive specific training in agri-tech and agri-business enterprise incubation (through the BIC Ethiopia project) constitute important stakeholders as they improve market access and the financial management skills of this specific target group of SMEs.

Finally, in the financial sector, key players in the agri-finance ecosystem include mainly banks and MFIs who already engage with specific products and services for (agri-)SMEs or are willing to do so. For example, Awash Bank (interviewed for this study), who offers warehouse receipt financing. Several banks have developed products partnering with foundations or development institutions that seek to ease the requirements of agri-SMEs accessing a loan; these key financial institutions, therefore, include Awash Bank, Debub Global Bank, Dashen Bank, and Cooperative Bank of Oromia. The foundation involved in several activities is the Mastercard Foundation (MCF). Moreover, on the development institutions side, key players already heavily involved in the country include UNDP, USAID, and GIZ. In Figure 1, key players of the financial ecosystem are highlighted. For an overview of interviewed stakeholders, please refer to the List of experts and institutions interviewed in Annex 7.

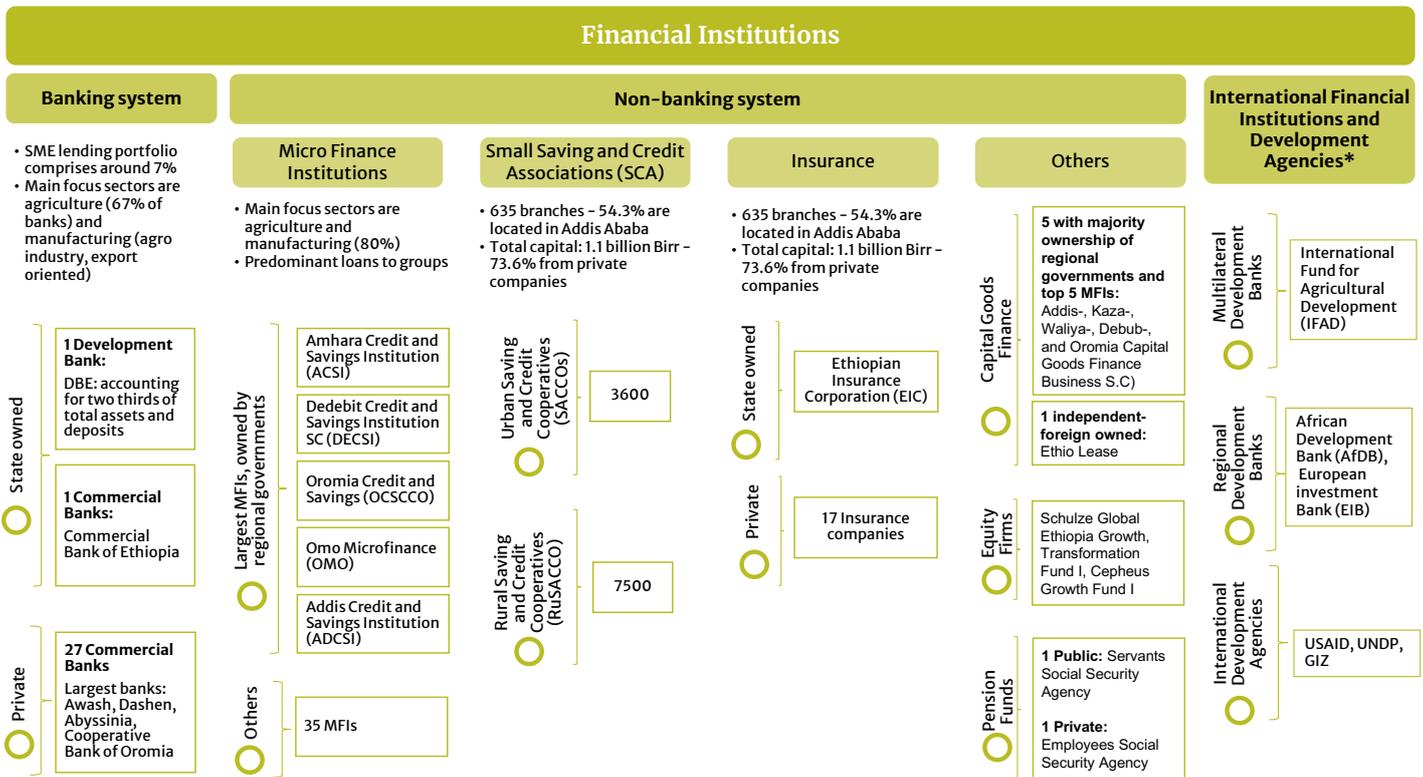
1 Insurers (National Bank of Ethiopia, 2023)

2 Microfinance Institutions (National Bank of Ethiopia, 2023)

3 6 capital goods finance companies (National Bank of Ethiopia, 2023)

4 Banks (National Bank of Ethiopia, 2023)

5 For more information visit: <https://www.ata.gov.et/programs/highlighted-deliverables/input-voucher-sales-system-ivs-2/>



Adapted from Tekie (2016)

*The list is non-exhaustive. Included here are examples of institutions present in the Ethiopian financial ecosystem

Figure 1. Agri-finance ecosystem stakeholders

4. Agri-Business & Agri-Tech Landscape in Ethiopia

4.1. Country overview



The importance of the agriculture sector in Ethiopia is underlined by employing approximately two-thirds of the country's workforce, with smallholder farmers constituting 95% of the total production; and constitutes 76% of the exports and accounting for around one-third of the country's GDP (Research and Markets, 2020; Tafesse, 2022). This sector is characterized by using traditional farming methods and being rain-fed. The main crops the country produces are maize, coffee, and sesame seed (Research and Markets, 2020). Considering its importance, the agricultural sector is crucial to achieving the country's economic goals and is usually prioritised in many of the country's policies and frameworks.

According to the new regulation (Regulation Number 526/2015) of the Ethiopian Enterprise Development (EED), enterprises are classified as micro, small, or medium mainly based on their total assets, as presented in the following table. Other factors like the number of employees also exist.

Table 1. Classification of Micro, Small, and Medium Enterprises by total assets (ETB)

Micro	Small	Medium
Less than or equal to 600,000	600,001 - 10,000,000	10,000,001 - 90,000,000

Source: Ethiopian Enterprise Development Regulation No. 526/2015

In most cases, the financing schedule of banks in Ethiopia is 30% equity for a 70% loan. In line with this, the financing requirement of an enterprise may be a maximum of 70% of their total assets for each respective enterprise class mentioned in the table above.

4.2. Agri-SME landscape in Ethiopia

The agroindustry, which includes all commercial activities **from farm to fork** (complete food value chain, including the supply of agricultural inputs, the production and transformation of agricultural goods, and their distribution to final customers), is a significant source of economic resources globally and in Ethiopia and it further supports nutrition and food security. The approximately 300.000 micro- and small-sized enterprises (MSEs) in the country create around 2,8 million jobs (Tekie, 2016). Beyond employment opportunities, SMEs in the agricultural value chain are essential to increase the efficiency and effectiveness of the value chain. They contribute to closing the investment gap for modernising the agricultural sector (GIZ, 2022). Productivity is comparatively low in the country (e.g., the average yield of wheat is almost half of that of countries in East Asia and Central America) and the sector (dominated by smallholder farms -over 17m- who contribute about 95% of agricultural products) faces many challenges such as limited mechanization and technology adoptions, inability to ensure food self-sufficiency, heavily affected by climate change, declining soil fertility and increasing pest and diseases (Tafesse, 2022). This situation poses a huge opportunity for agri-SMEs to improve efficiency in the agricultural value chain.

These agri-SMEs constitute the target group of BIC Ethiopia. Specifically, BIC Ethiopia seeks to support agri-tech and agri-business enterprises, as the innovations they develop can strengthen the value chain and agriculture sector. As such, this agri-finance navigator defines these two types of business models, as shown in Figure 2.

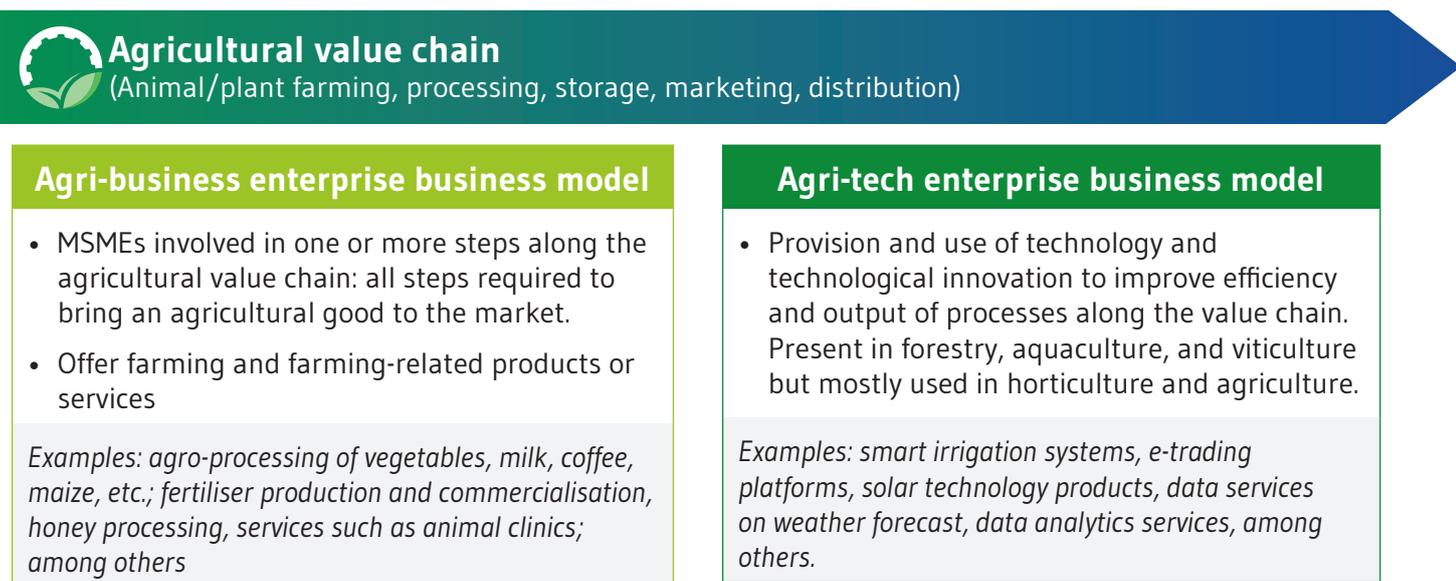


Figure 2. Agri-business and agri-tech enterprise business models

4.3. Policy Timeline

The main forces that hinder SME financing in Ethiopia include the absence of clear policy and regulation towards SMEs, banks, and MFIs, the macroeconomic conditions, competition in the SME sector and among the financial sector, lack of demand by SMEs for financial services, and other SME specific factors (Nega & Hussein, 2016). Moreover, even when clear policies and frameworks are still lacking, many policies have been developed that improve access to finance by (agri-) SMEs. As part of the Growth Transformation Plan, an encompassing framework that seeks to bring the country to become a low-middle-income country by 2025 (Federal Democratic Republic of Ethiopia, 2016), there are several policies and frameworks contemplating the importance and the furthering of the development of the agriculture sector and MSEs in the country. The development of these policies and frameworks evidences the commitment of the country towards inclusive economic development that considers the priority sector of agriculture and SMEs. These can be grouped into three groups: **policies for agriculture in general, for SMEs (financing), and agri-SMEs financing** (see Figure 3).

The policies and frameworks generally seek to improve the income of smallholder farmers through improving agricultural productivity and aiming towards strengthening agro-processing and the industry in general, as well as furthering the development of start-ups and SMEs in general.

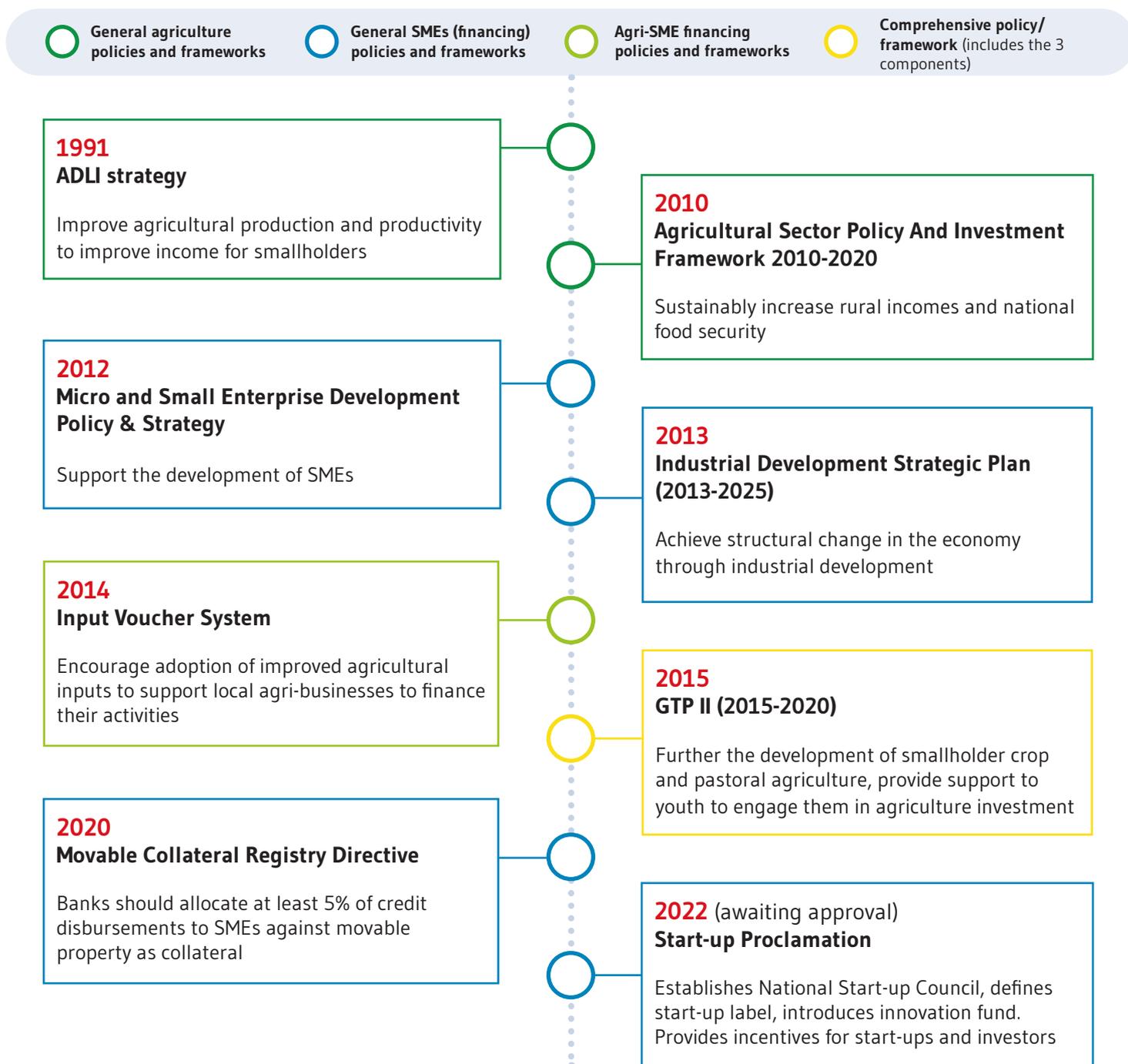


Figure 3. Policy timeline of agri-SME financing.

Developed with information from: World Bank; Ministry of Urban Development & Housing; Ministry of Agriculture and Rural Development; FDRE Ministry of Industry



The National Bank now introduced the movable collateral policy which will tackle the challenge of MSMEs having no collateral.

Credit Officer, National Bank of Ethiopia

5. Agri-Finance Landscape in Ethiopia

5.1. (Agri-) SME Financing Challenges



The major challenge we identified in financing SMEs is lack of technical skills, which is something that can be solved through training. Hence, DBE has taken the initiative to not just give loans but to also give trainings before any loan is given.

Dr. Yohannes Yalehu, President, Development Bank of Ethiopia

SMEs in developing countries tend to face similar challenges when accessing finance. These businesses are less likely to secure loans than large firms; they lack the collateral and or credit record required by banks and have poor financial and business management skills for which they are rejected for loans. Plus, early-stage enterprises and, in general, SMEs bear higher risks with lower returns, which translates to high interest rates. On the other hand, banks fail to offer tailored financial products to meet SMEs' needs and lack the resources and knowledge of SME business models to properly assess them. In Ethiopia, the situation is much worse, ranking 159 out of 190 in the World Bank Ease of Doing Business Ranking (2019), with the most challenging aspect being getting credit. Moreover, this situation and challenges are well felt by SMEs and agri-SMEs in the country, where in addition, a lack of a unified definition of SMEs and limited geographic outreach for SMEs affects their access to finance.

Furthermore, specific challenges around agricultural business models, such as lumpy cash flows, climate change-related risks, and their small scale, among others, worsens their ability to secure a loan. General challenges for SMEs and particular challenges to agri-SMEs in the country are grouped into supply-side challenges, demand-side, and system-level challenges; and are detailed in Figure 4. The challenges compiled here were collected from the interviews conducted with experts and financial institutions for the study, and are further reaffirmed or complemented by previous research from several institutions and experts, including GIZ (Barriers to Agricultural Finance in Ethiopia, 2022), the Commercial Agriculture for Smallholders and Agribusiness (CASA) Programme (Bridging the Agri-SME finance gap, 2022), The World Bank Group (SME Finance in Ethiopia: Addressing the Missing Middle Challenge, 2015), The Rockefeller Brothers Fund (Climate Finance Pathfinder. Ethiopia Report, 2020).



SME FINANCE CHALLENGES IN ETHIOPIA

Supply-side	Demand-side	System-level
<ul style="list-style-type: none"> • High collateral requirements which SMEs lack: in Ethiopia, SMEs normally need 85% and can be as high as 234%. <ul style="list-style-type: none"> » <i>Fixed collateral is preferred, but the National Bank introduced a movable collateral policy which allows great potential</i> • High interest rates due to high risk: up to 21% • Lack of tailored products (and procedures) for SMEs • Insufficient capacity of banks and FIs to serve the SME segment (understanding SMEs, analysing repayment capacity, follow-up, monitoring and evaluation of SMEs) • Insufficient loan size and too short loan term • Low availability of fin-tech products and services • Grace period does not apply for working capital, only for project loans 	<ul style="list-style-type: none"> • Poor quality of financial management practices and systems by SMEs • Lack of management capacity and quality business plans of SMEs • Low awareness of available products accessible by SMEs • Lack of eligible collateral 	<ul style="list-style-type: none"> • Access to markets resulting in lower liquidity, due to lack of infrastructure, logistics challenges, inefficiencies from policies, etc. • High credit costs, increased by expenses such as stamp duty, payment to city council, service charge (approx. 5-8% increase) • Lack of awareness of a unified definition of MSMEs: hinders development of MSME financing strategies <ul style="list-style-type: none"> • The start-up act (awaiting proclamation) will define “start-up”, establish an innovation fund and provide incentives • Lack of National ID and credit information system: Difficult building credit history of individuals and SMEs <ul style="list-style-type: none"> » <i>The NBE Credit Reference Bureau (CRB) was established in 2012 but it is still nascent and only collects information from banks and MFIs (not cooperatives)</i> • Dependence on donations hinders entrepreneurs from actively seeking finance <ul style="list-style-type: none"> • Limited geographic outreach: Population is sparsely distributed and there is low quality and density of the road networks • Leasing, equity and funds absent mainly due to international finance prohibition <ul style="list-style-type: none"> » <i>Policy changes allowed for the first foreign owned independent leasing company: Ethio Lease</i> • Delays in approval and disbursement of foreign currency

SME Finance challenges are further heightened for agricultural SMEs

AGRI-SME FINANCE CHALLENGES IN ETHIOPIA

Supply-side	Demand-side	System-level
<ul style="list-style-type: none"> • Limited expertise at banks about agriculture business models, resulting in lack of agricultural loan products. • Non-tailored risk assessment: Different trade licenses are perceived with different risks. Those perceived as riskier obtain higher interest rates. And risk and loan amount are not assessed based on value performance and value chain links • Personal guarantee required (individual legal promise to repay credit) 	<ul style="list-style-type: none"> • Lack of understanding opportunities available, as well as SMEs overvaluing semi formal and informal finance • Agriculture is generally perceived as risky sector considering its productivity, conflict-exposure, commitment of borrowers and long value chain • Low economies of scale of small farming ventures poses a high risk–low return profile 	<ul style="list-style-type: none"> • Lumpy cash flows: typical cash flows consist of one large outflow (loan) followed by a large inflow several months later following the harvest • Climate change-related risks and agricultural insurance: access and use of this type of insurance is still limited • Diverse agri-business models with varying investment needs and risk profiles which require high specialisation (in monitoring, assessment) • Lack of access to processing facilities (e.g. pilot processing plants)

Figure 4. SME Financing Challenge



Challenges for agri-SMEs include the high inherent risk of agriculture, high cost of due diligence: banks are still focused on in-person meetings, which is very costly, business formality: many agri-businesses stay informal due to bureaucracy to become formal, and lack of financial literacy.

Anne Roulin, President, Agripreneurship Alliance

5.2. (Agri-)SME Financing Solutions

Responding to challenges and following their motivations, some stakeholders have started developing solutions that address the challenges that agri-SMEs face. For this study, we identified 23 solutions or finance mechanisms that improve access to finance for agri-SMEs in Ethiopia. These include digital solutions, blended finance solutions, and special-term financial products. For each category, there may be different instrument types available: either debt-based (to increase the amount of capital in a business, which can include loans, credit cards, bonds, etc.), equity-based (which can include business angels, private equity, venture capital, etc.) or hybrid instruments with combine characteristics from different types. The focus of this study lies in loan-type financial products, which can be more traditional lines of credit or hybrid types that also include guarantees. Beyond these specific solutions, it is encouraging to see that all banks and MFIs in the country offer SME or start-up loans at varying conditions. In Figure 5, an overview of these solutions is provided, including information on how to access currently available products for **established MSMEs**  and **start-ups or entrepreneurs** .



We are aware that the agricultural sector contributes to a majority of the GDP, and there is a need to increase the financing for this sector. We work with the IFC and the Ministry of Trade on national warehouse system/warehouse receipt finance to enable us to increase financing to agri-business and input providers to access loans against inventory."

Hailemickael Engida, Manager of Credit Analysis, Abay Bank





Michu

Instrument Type: Collateral free loan

MSME

Objective/Characteristics

Enable micro and small businesses in Ethiopia to access loan without collateral from CBO digitally. Provides ETB 5,000 to ETB 50,000 micro loans at interest rate of 2.5% to 3% per month. *Loan product powered by Qena

Implemented by

Cooperative Bank of Oromia, Kifiya Financial Technologies

How to access it?

If you are an MSME who has a bank account at Cooperative Bank of Oromia, visit any bank branch to get the app and register on the app, filling in your company and personal information. Submit your renewed trade license, TIN, renewed ID card, and memorandum of association on the app. Complete the loan application on the app. If the loan request is approved, you will be notified, and you can collect the money from any coop branch or via mobile banking.

[Qena]

Instrument Type: Technology platform

Objective/Characteristics

Technology platform for banks to offer (unsecured) loans to MSMEs through an AI-enabled credit scoring system that uses alternative data (e.g. employees, psychometric tests, etc.), reducing risk and speeding up the credit process

Implemented by

Product by Kifiya Financial Technologies PIC

Note: This is a component of Michu

Yegara.org

Instrument Type: Equity

START UP

Objective/Characteristics

Connect enterprises with investors through an online investment platform to support investable start-ups in raising local and international capital

Implemented by

Ministry of Labour & Skill, MCF, Piazza Promotion

How to access it?

Register as a start-up here: <https://yegara.org/#/page/sureg> to connect with investors and get funded

Santim Pay

Instrument Type: Technology platform

Objective/Characteristics

Fintech solution platform that facilitates facilitate quick, convenient transactions between banks, customers and merchants

Implemented by

Santim Pay, Birhan Bank, Abyssinia Bank, Commercial Bank of Ethiopia, Bunna Bank, Awash Bank, Amhara Bank

Note: Currently finalizing testing with partner banks to commence operation officially

Dube Ale

Instrument Type: Deferred payment

MSME

Objective/Characteristics

Buy-Now Pay Later scheme that allows users to purchase goods and services on credit. The maximum spending limit is currently set at 700,000 birr and is determined at Dashen Bank branches.

Implemented by

Developer: EagleLion System Technology. Implemented by Dashen Bank

START UP

How to access it?

Download the app from Google Play or the Apple Store and register following the steps on the app. Then go to your correspondent bank branch and apply for your spend limit and you will be ready to shop from any available dubeale merchants



BIC Ethiopia Funding Facilitation Mechanism

Instrument Type: Discounted loan

MSME

Objective/Characteristics

Increase access to debt-finance for post-revenue agri-SMEs

Implemented by

BIC Ethiopia and selected partner banks

How to access it?

If you are an agri-SMEs who will participate in the BIC Finance Masterclass, you will receive all the information on how to apply during the training

Mastercard Foundation MSE's Resilience Facility

Instrument Type: Guaranteed soft loan

MSME

Objective/Characteristics

Support the recovery of 24,000 MSEs operating in Addis Ababa, that have been affected by the Coronavirus (Covid 19) pandemic

Implemented by

Awash Bank, Dashen Bank, Mastercard Foundation (MCF), UNDP

How to access it?

If you are formally registered and have been in operation for at least one year as of June 2020 (or if you are a micro enterprise still not formalised), apply online at: <https://www.ethiomsefund.com/landing/home>

If not able to apply online, you can apply physically at every branch (Awash Bank or Dashen Bank)

USAID Development Credit Authority (DCA)

Instrument Type: Loan/Guarantees

Objective/Characteristics

Partnership of \$6.4 million to finance microfinance institutions and small- and medium-sized agricultural businesses in Ethiopia

Implemented by

Awash Bank, USAID

Note: Does not refer to a specific product for enterprises. You can get in touch directly with the bank to check available loan options

MOYESH Project

Instrument Type: Guaranteed soft loan

START UP

Objective/Characteristics

Support 100,000 young entrepreneurs in beekeeping and silkworm farming. Financial collaborators offer affordable financial products

Implemented by

icipe, Mastercard Foundation

How to access it?

If you are a young entrepreneur involved in beekeeping and silk businesses, get in contact with the Ethiopia country office at icipe-ethiopia@icipe.org

CATALYZE Ethiopia: MS4G

Instrument Type: Loan restructuring

MSME

Objective/Characteristics

Grant mechanism for financial institutions (FIs) for debt restructuring for agriculture loans. Targeted to agribusinesses, onestop-shops, agro-dealers/retailers, farmers, farmer cooperatives, cooperative unions, exporters or smaller financial institutions suffering shocks caused by the Ukraine conflict and increased fertilizer prices.

Implemented by

Funded by USAID, implemented by Palladium LLC

How to access it?

If you work in the WASH or Agriculture sectors in Addis Ababa or secondary cities in Ethiopia, keep an eye for when a call for applications is announced on the media. And follow the steps on how to apply

BLENDING FINANCE SOLUTIONS



Loan guarantees (under development)

Instrument Type: Loan/Guarantees

Objective/Characteristics

Loan guarantee schemes are being set up on a competition basis, with 28 million USD already raised from donors to support enterprises.

Implemented by

Ministry of Labour & Skills (MLS)

Note: Not yet implemented. Keep an eye open for any new information

Tila

Instrument Type: Loan

Objective/Characteristics

Tila's scheme seeks to de-risk loans to increase SMEs' financial inclusion and promote jobs creation. It provides micro loan to SMEs. Elebat is responsible for screening of SMEs while Hibret Bank finances

Implemented by

Ministry of Labour & Skill, Mastercard foundation, Hibret Bank, Elebat Solution

Note: Not yet implemented. Keep an eye open for any new information

SME Finance Project (SMEFP)

Instrument Type: Micro loan/Lease

MSME

Objective/Characteristics

Support SME financing through machinery lease (through DBE branches) and working capital loan (through selected private financial institutions). Finance from IDA and EIB

Implemented by

Development Bank of Ethiopia, 6 private banks, 7 MFIs

How to access it?

If you work in Manufacturing, Agro-processing, Tourism and Construction, to apply for a machinery lease submit an application to your local DBE branch. Follow the requirements under <https://www.dbe.com.et/index.php/requirements>.

To apply for a working capital loan contact the MFIs directly (Amhara Credit and Saving Association, Addir Credit and Saving, Vision, Wasasa, PEACE, Harbu, SFPI, Bussa Gonofa) and banks (Enat, United, Birhan, Addis International, NIB International, Lion International)

Bridge Project

Instrument Type: Loan

Objective/Characteristics

Provide loans to Micro finance institutions to support them in their provision of loans to SMEs

Implemented by

First Consult, Mastercard Foundation, DAI and Hibret Bank

Note: Does not apply directly to MSMEs as it is targeted to microfinance institutions

Women Entrepreneurship Development Project (WEDP)

Instrument Type: Loan/Training

MSME

Objective/Characteristics

Provide finance and business support for growth-oriented women entrepreneurs in Ethiopia

Implemented by

World Bank and Development Bank of Ethiopia

How to access it?

If the enterprise is owned or partly owned by a female entrepreneur in Addis Ababa, Dire Dawa, Mekele, Bahir Dar, Adama, Hawassa, Assela, Axum, Dilla or Gondar Cities, register at any of the OSS (one-stop shops), TVETs and MFIs listed here: <http://www.wedpet.org>



Dashen Kefita

Instrument Type: Grant/Loan



Objective/Characteristics

Competitive-based support for start-ups. It provides grants and collateralized loans for the top 5 winners

Implemented by

Dashen Bank

How to access it?

Keep an eye for when a call for applications is announced on the media. And follow the steps on how to apply

KAZANA Fund

Instrument Type: Equity



Objective/Characteristics

Provide equity investment for start-ups.

Implemented by

Addis Ababa Angels

How to access it?

If you are looking to raise pre-seed/ seed finance, apply online here: <https://kazanafund.com/> and pitch your business idea anytime

Idea Financing

Instrument Type: Equity/Loan



Objective/Characteristics

Provide loan and equity to patented innovators. The equity will be from the bank as well as from interested investors.

Implemented by

Development Bank of Ethiopia

How to access it?

Get in touch with a local branch of DBE and request information on the application process for the Idea Financing Scheme

Exchange Programs

Instrument Type: Equity



Objective/Characteristics

It is a network of impact investors. Through different stages and programmes, enterprises can receive investments from 50,000 Birr to 3 million Birr as acceleration capital

Implemented by

Renew

How to access it?

If you are interested in obtaining investment, complete the financing application at: <https://www.renewcapital.com/apply-financing/> to enter Renew Capital's pipeline. Then, you will be contacted by a member of Renew Capital

SPECIAL TERM FINANCIAL PRODUCTS



Loans for Entrepreneurs

Instrument Type: Loan



Objective/Characteristics

Loans for MFIs or SMEs at reduced interest rate. Term, collateral and repayment is flexible. If entrepreneurs have no collateral they can deposit a small amount and pitch their idea

Implemented by

Debub Global Bank

How to access it?

Get in touch directly with local branches of financial institutions such as Debub National Bank in any branch to start an application

Warehouse Receipt Financing

Instrument Type: Loan



Objective/Characteristics

Lending against warehouse receipts. Produce deposit at warehouse of third party serves as collateral

Implemented by

Awash Bank, Dashen Bank

How to access it?

Get in touch directly with Awash Bank in any branch to start an application, or request more information online (<https://awashbank.com/contact-us/>) or by phone

Wholesale Lending

Instrument Type: Loan

Objective/Characteristics

Wholesale lending to MFIs in order to reach to wider SMEs

Implemented by

Abyssinia Bank, Dashen Bank, Hibret Bank, among others

Note: Does not apply directly to MSMEs as it is targeted to Microfinance Institutions

Micro business loan

Instrument Type: Loan



Objective/Characteristics

Micro business loans mostly targeted to women of up to 20,000.00 Birr to address financial needs of women involved in rural and urban micro business activities

Implemented by

Sheger Microfinance

How to access it?

If you are a woman (also applies for men) involved in micro business activities, get in touch directly with the nearest branch in Finfine city, Sheger city, or Oromia Regional State

Figure 5. Overview of agri-SME financing solutions⁶

From the solutions available, it can be concluded that the majority consist of loans that offer special conditions for SMEs and are usually implemented by development institutions or foundations in partnership with banks in the country. Some other financial institutions may not offer a specific mechanism design to improve access to finance but do offer special terms within their financial products that target (agri-) SMEs (e.g., reduced interest rates, loans, or other products targeted to specific audiences, for example, start-ups,

6 Developed with information obtained from interviews (refer to Annex) and online sources for each solution as specified. Yegara.org (Yegara, 2021; Udoh, 2021; 2Merkato.com, 2021); Tila (Mastercard Foundation, 2021; Development Diaries, 2021); Michu (Cooperative Bank of Oromia, 2022; Further Africa, 2022; Cooperative Bank of Oromia, 2022); Qena (Shega, 2022); Mastercard Foundation MSE's Resilience Facility (Ethio MSE Fund, n.d.; Mastercard Foundation, 2020; Awash Bank, 2020); USAID Development Credit Authority (Awash Bank, 2022; Beckman, 2019); MOYESH Project (icipe, 2021; Addis Standard, 2019); Loan guarantees (Job Creation Commission, 2020); Exchange Programmes (Renew Capital, n.d.; Thorpe, 2016); Warehouse Receipt Financing (Global Finance, 2022); Loans for Entrepreneurs (Debub Global Bank, 2016); SME loans (Debub Global Bank, 2016). Further input obtained during the validation workshop for the agri-finance navigator held on February 21st, 2023 in Addis Ababa.

SMEs in general, SMEs in the agriculture sector). The solutions presented here offer a variety of benefits both for enterprises and financial institutions. Enterprise benefits include lower interest rates, relaxed collateral requirements, and easiness in the application for loans, which overall increase access to finance by SMEs and marginalized groups. For financial institutions and other stakeholders, blended finance solutions reduce risk through guarantee schemes, and they further benefit from decreased operational costs and can increase their revenue. Furthermore, many solutions may incentivize partnerships; for example, for the Tila platform, partners are needed for technical and financial support to improve the existing digital platform.

Some issues around awareness of many of these solutions, as gathered from the interviews, still exist. Therefore a few recommendations to tackle these are described. The application processes may still be long, so enterprises seeking to access these financial instruments must keep in mind the time it takes and plan accordingly. Another issue is that, in many cases, partnering with a foundation or development institution may be perceived by enterprises as a grant offering; thus, banks should clearly explain that such is not the case in order to avoid/decrease non-repayment.



EXAMPLES WORLDWIDE

Beyond solutions implemented and opportunities available in Ethiopia, there are further examples worldwide that are worth mentioning as they could be considered for the Ethiopian context. In general, these are blended finance instruments, which include technical assistance as an important part of the mechanism and focus on SMEs along the agricultural value chain. In the countries where they have been implemented, these solutions have achieved a large outreach and tackled several challenges by accomplishing a reduction in financial risk for banks, lower transaction costs, faster implementation time, higher engagement, and buy-in from relevant stakeholders. Solutions such as these should be considered for Ethiopia as they offer tailored opportunities for agri-SMEs while increasing revenue for financial institutions and their experience and knowledge in the agriculture sector. Below in Figure 6, we call attention to 4 promising solutions: Uganda Green Enterprise Finance Accelerator - UGEFA (adelphi), CARD SME Bank (2022), FinGAP (Palladium, 2018), and Sustainable Landscapes Portfolio Guarantee (USAID), which could be considered for the Ethiopian context highlighting their objective and what is interesting for the country in terms of opportunity or innovation. The solutions are further detailed in the Annex: Promising international agri-SME finance solutions.



UGEFA is a unique approach which combines capacity building and funding facilitation to help grow the green SME sector in Uganda. The comprehensive capacity building builds a pipeline of bankable green enterprises; the funding facilitation instruments are an innovative alternative to guarantee mechanisms to stimulate and catalyse the flow of green finance to Ugandan SMEs. This approach is suitable to be implemented across many different countries in the region

Christine Meyer, Programme Lead, UGEFA

	Purpose / Objective	What's interesting for the Ethiopian context?
<p>Uganda Green Enterprise Finance Accelerator (UGEFA)</p> <p>Implemented by: EU, adelphi, Finding XY</p> <p>Instrument Type: Loans / Grants</p>	Facilitate the flow of green finance into the Ugandan SME sector through strengthening green SMEs and improving available financial mechanisms for SME debt financing	Comprehensive capacity building can be implemented to de-risk loans
<p>CARD SME Bank (Philippines)</p> <p>Implemented by: Canadian International Development Agency (CIDA), IFC, CARD Bank</p> <p>Instrument Type: Loans (w/ Technical Assistance)</p>	Thrift Bank to increase MSME access to financing enabling the creation of jobs and thus reducing poverty	Agri-finance strategies can be developed by banks to offer products that meet the needs of SMEs
<p>Financing Ghanaian Agriculture Project (FinGAP)</p> <p>Implemented by: USAID, Palladium</p> <p>Instrument Type: PBR, Guarantees (w/ Technical Assistance)</p>	Stimulate commercial lending to agribusinesses in rural Ghana through grants (as pay for result incentives scheme) and guarantees	PBR schemes could incentivize both financial institutions to lend to SMEs and BDS providers to facilitate finance
<p>Sustainable Landscapes Portfolio Guarantee (India)</p> <p>Implemented by: USAID, Rabobank Foundation, Anaya Finance</p> <p>Instrument Type: Guarantees</p>	Enable lending by local partner FIs to SMEs, co-operatives, producer companies and microfinance institutions engaged in sustainable landscape investments	Banks could increase collaboration with cooperatives, MFIs and producers to increase reach to SMEs

Figure 6. International agri-SME financing solutions

6. Trends and Way Forward

The research and information previously presented allow us to identify some trends regarding agri-finance for MSMEs in the country. **Agri-finance is not a big topic in the country, even though the agriculture sector is extremely important for Ethiopia's economy.** In general, banks and financial institutions don't have dedicated or tailored products for SMEs, even less for agri-SMEs. Some banks and other institutions are partnering with development organisations and foundations to offer specific solutions for SMEs. For the most part, these available opportunities to access finance for SMEs are in the form of loans, with fewer options contemplating other finance instrument types such as equity. For the most part, available opportunities are directed towards SMEs in general, without a specific focus on agri-SMEs. Although a few opportunities exist that offer better conditions to increase access to finance by SMEs, lack of awareness about these and a "grant" mindset of the enterprises still remains a challenge.

Regardless of solutions being implemented, remaining gaps persist in the agri-finance landscape, mainly the lack of focus to develop solutions specifically for SMEs in the agriculture sector (focus lies on SMEs in general and in achieving other objectives, such as job creation). This leads to the still existent lack of understanding of agri-business models and their particular needs. Moreover, although many financial institutions engage in the agriculture sector and have it as a focus, it is still not enough to address these SMEs' particular needs and consider their distinct conditions. Other remaining gaps include:

- Lack of technical assistance tailored to the needs and particularities of agri-SMEs and smallholder farmers that improves financial literacy, their financial management skills, and increases their opportunities to access finance
- Insufficient understanding of agri-business models, which distances financial institutions from engaging with the agri-sector and, in turn, hinders the development of tailored solutions for agri-SMEs
- Difficulties in reaching banks and other financial institutions as they are highly concentrated in the capital and urban areas
- Non-traditional types of collateral are generally not considered by financial institutions
- Governmental interventions (often in the form of subsidies) difficult market-based mechanisms successful implementation
- There is no clear understanding of agri-SMEs, their size, financial requirement, etc., across financial institutions.
- Banks mobilise their financial resources mainly from saving. However, there is no consistent culture of saving in rural areas, which will, in turn, limit their ability to lend.
- A number of digital finance solutions are being developed in the country. However, their effective implementation is largely affected by the lack of a proper user identification system.

6.1. Recommendations

Based on the trends and remaining gaps identified, and in order to accelerate and expand sustainable access to inclusive finance for enterprises in Ethiopia, it is essential to focus on the following approaches and intervention areas for each stakeholder group.



For Financial Services Providers:

- Innovation in financial products: Promote products beyond lending (e.g., lease financing, insurance, supply chain financing, interest-free financing, finance through SACCOs, etc.), utilise low-cost delivery channels, develop and use risk modelling tools; enhance and scale up digitalisation, which can also reduce transaction costs (e.g., digital lending, credit scoring, mobile and agent banking, mobile money, internet banking, virtualise due diligence (Roulin, 2022) (Tekie, 2016)
- Collateral requirements: Promote guarantee schemes, especially for new, innovative, and small firms. Use other types of collateral, such as intellectual property, to encourage people that have innovative ideas but no implementation mechanism (AACCSA); or other alternative forms of collateral, such as cattle head (Roulin, 2022)
- Financial literacy: Include offering business development services along with credits (AACCSA). Furthermore, consider also the training received by SMEs (e.g., through incubation programmes) as a factor to de-risk loans (Roulin, 2022)
- Flexibility within SME sectors: Consider the specific needs and business models of the agricultural sector, for example, by aligning payback terms with agricultural cycles
- Launch inclusive financial services and awareness campaigns to stimulate uptake among enterprises and smallholder farmers: e.g., through financial literacy training, awareness creation and education campaign on digital payment and agent banking system, solar energy financing (Pay-As-You-Go), agri-financing technology, etc.
- Adopt a VCF approach to broaden the agriculture lending base. This approach reduces credit risk by reducing information asymmetries while lowering transaction costs and increasing profitability (World Bank Group, 2016)
- Consider and improve gender equality when accessing finance by including women in financial institutions, which may reduce biased decisions that favour male entrepreneurs when accessing loans (Roulin, 2022)
- Develop digital solutions for agri-SMEs that can ease their internal financial management along with the loan repayment intelligent system. (e.g., the solution may alert the agri-SMEs to allocate enough funds when the repayment date approaches and, at the same time, enable the registration of their revenue and costs as they happen)
- Develop traditional financing mechanisms within the society into modern financing schemes maintaining all the values and traditions of the practice. (e.g., Equb)



For Government and Public Institutions:

- Further an effective enabling environment and provide a bespoke national infrastructure for the financial ecosystem through the implementation of the measures contemplated in the National Digital Payments Strategy 2021-2024, enabling laws for digitisation of payments and remittances, improving network connectivity, and developing partnerships with fintechs, among others (UNCDF, 2022)
- Support the regulatory and policy level system of the financial inclusion system and support the implementation of key strategies and frameworks such as the National Payment Strategy, the Financial Inclusion strategy, etc.
- Ensure the same application of rules to private- and state-owned banks, as well as fair and transparent distribution of bank funds/loans between state and private projects (Economisti Associati, 2013)
- Promote the implementation of the new digital ID system in remote areas where it is needed more to ensure their eligibility to access financial solutions
- The government may introduce incentives for financial institutions to promote their engagement in agri-SME financing



For Intermediaries:

- Provide technical assistance to agri-SMEs, which is based on a needs assessment and targets, among others, their financial management, record-keeping, and accounting skills. Furthermore, organise pitching events to bring together SMEs and financial institutions as a platform not only for networking but also where SMEs can apply for funding (GIZ, 2022)
- Promote domestic investment, channel equity, and angel investment towards enterprises through readiness programs for enterprises, supporting innovative ways of boosting domestic investment by awakening potential investors, capital ventures, etc.; arranging the Innovation Investment Fund, Investment Platform, etc.
- Develop risk-sharing mechanisms by working with international and local development partners and ensure the inclusion of agri-SMEs within the loan disbursement schemes of financing banks and other financial institutions.
- Promote the collation of agri-SMEs with similar attributes to apply for financing from banks so that the loan administration cost of the financial institutions may decrease.
- Promote the improvement of policies with an objective of improving agri-SMEs' access to finance by discussing with policymakers using available platforms.
- Development partners should promote joint co-financing modalities with banks to ensure effective utilisation of funds and promote the inclusion of agri-SMEs into the financing system of banks.



System-level recommendations:

- Establish clear KPIs for impact measurement, which will then enable consolidation and encourage more lending into the sector (Roulin, 2022)
- Implement and use the advantages of Public Private Partnerships (PPP), which have the potential to aid in achieving the country's development goals and generate economic growth while ensuring environmental sustainability
- Partnerships that include the Ministry of Water and Energy can scale up small-scale irrigation projects, widening the opportunity for agri-SMEs to develop. In the same way, the Ministry of Industry could potentially partner to develop the agro-processing sector.
- Anchor approaches, such as agricultural value chain finance (GIZ, 2022), tackle some existing challenges, as illustrated previously.
- Private sector working jointly with Development Finance Institutions (DFIs) to integrate technical assistance for banks to set up agri-finances strategies and increase their reach.
- Increase the systemic inclusion of agri-SMEs in remote locations by engaging various development partners that implement their projects in nearby locations
- Include financial literacy courses within school curriculums, mainly for vocational schools and university students across all streams
- Financial inclusion-related platforms for agri-SMEs should be promoted to facilitate information exchange, create transparency, increase networking opportunities and give recognition for successful initiatives



I believe the Government should intervene in terms of policies and finding ways to incentivise banks for creating access to SMEs & start-ups, as well as creating the proper platform for trainings. After that, the SME and start-ups will start coming directly to the banks.

Asrat Tadesse, President, Zemen Bank

Way forward:

The BIC Agri-Finance Lab is a potential way forward to bring the recommendations previously described into action. This Lab aims to co-create further solutions that deliver capital to agri-SMEs by engaging financial institutions, funders, intermediaries, and other small- and medium-sized enterprise (SME) ecosystem stakeholders over a highly collaborative learning and innovation process.⁷ The Lab combines training components on Agri-SME-Finance to enhance participants knowledge and a competitive innovation process to design new financing solutions, where the best solutions will receive support to refine and pilot solutions (see Figure 7 for more details). The outcomes of the Lab have tailored solutions for financing agri-SMEs that combine: (1) financial instrument or mechanism (debt, equity, blended/hybrid or grants/donations); (2) features such as capacity building, technology access, the credit assessment, and more; and (3) an ecosystem of partners for knowledge sharing, implementation and financing that leverage their institutional capacities and expertise to meet the financing demands of agri-SMEs.

⁷ Since 2018, the labs (focused on climate and green finance) have been successfully implemented by adelphi's hosted SEED in Indonesia, India, Thailand, South Africa, and Ghana. For more information visit: <https://seed.uno/programmes/ecosystem-building/practitioner-labs-climate-finance>

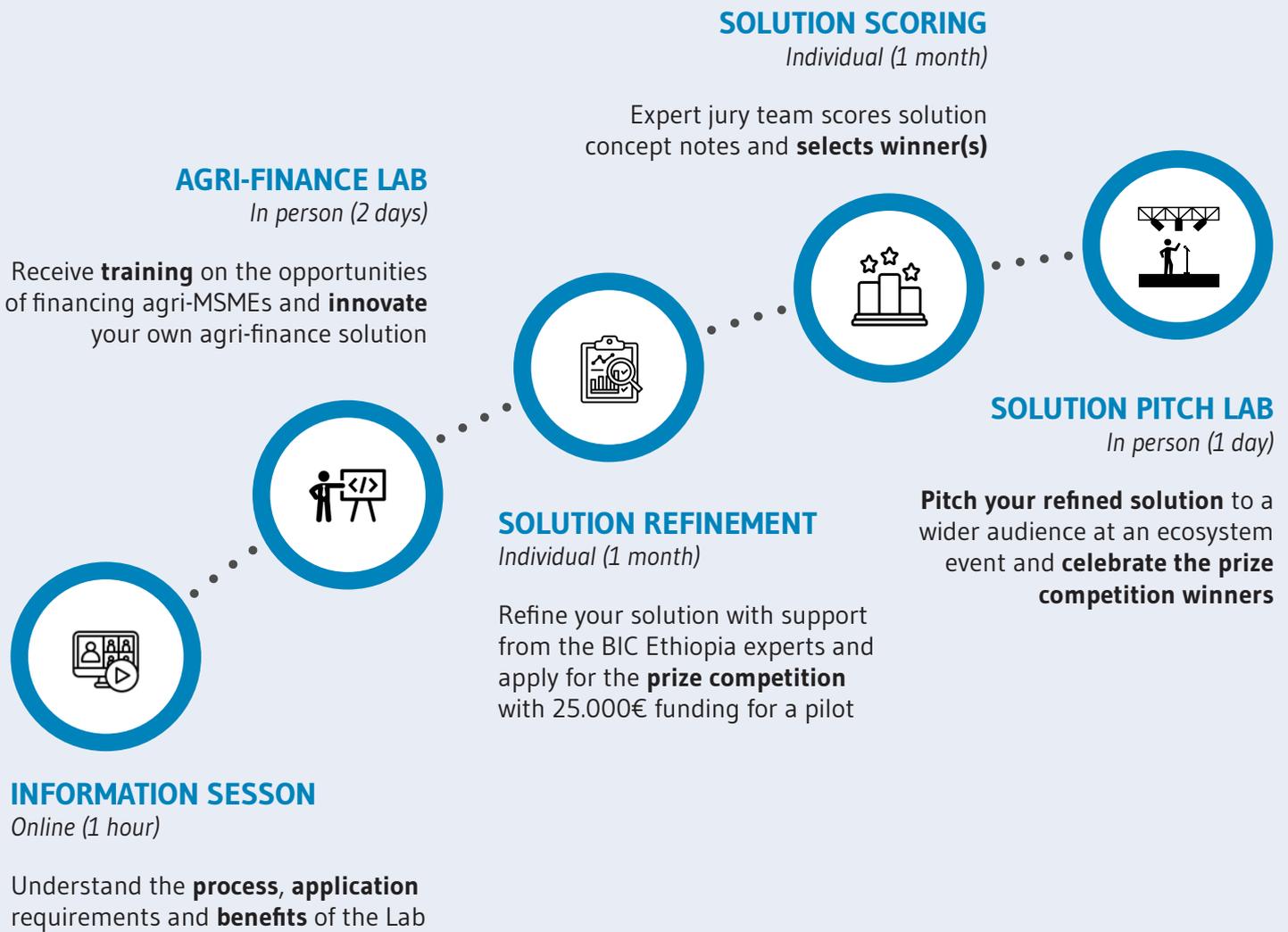


Figure 7. BIC Agri-Finance Lab

7. Annex

7.1. List of experts and institutions interviewed

	Institution Name	Interviewee	Position	Date and format conducted
Local - Ethiopia	Abay Bank	Hailemickael Engida	Manager of Credit Analysis	2 Dec 2022 - online
	Abyssinia Bank	Tewodros Taye	Credit Portfolio Manager	2 Feb 2023 - online
	Addis International Bank	Hailu Alemu	President AIB	14 Jun 2022 - in person
	Awash Bank	Ephrem Bogule	SME Banking Chief Officer	13 Jun 2022 - in person
	Commercial Bank of Ethiopia	Kassalau Shiferaw	SME Banking	13 Jun 2022 - in person
	Dashen Bank	Yihnalem Aknaw	Chief Retail MSME and Brank Banking Officer	26 Oct 2022 - in person
	Dashen Bank	Abere Mekonen	SME Financing Senior Manager	31 Jan 2023 - in person
	Dehub Global Bank	Abiy Alemayehu	Director of Credit Management Department	14 Jun 2022 - in person
	Development Bank of Ethiopia	Dr. Yohannes Yalehu	President DBE	21 Nov 2022 - in person
	Ethiopian Enterprise Development	Yaregal Dejene	Investment Promotion and Industry Transition Expert	25 Jan 2023 - in person
	GIZ	Christian Dohse	Special Initiative on Training and Job Creation - Cluster Support in the Agriculture and Food Industry in Ethiopia	Oct 2022 - in person
	GIZ	Marc Sindlinger	Advisor on Private Sector Development	Oct 2022 - in person
	Hibret Bank	Alealign Merkebu	Strategy Department Director	2 Feb 2023 - online
	Ministry of Labour & Skills	Nebiyu Gesesse	Work Readiness& Skill Development Team leader	15 Jun 2022 - in person
	KOICA	Sue Park	PAO / Consultant / Regional Director KODAC	2 Dec 2022 - online
	National Bank of Ethiopia		Credit Management	13 Jun 2022 - in person
	NIB International Bank	Demes Girma	Manager	5 Sep 2022 - online
Sheger Microfinance	Fasikaw Sisay Amera	General Manager	15 Jun 2022 - in person	
Zemen Bank	Asrat Tadesse	President	14 Nov 2022 - in person	

Global	GIZ - Globalvorhaben Agrarfinanzierung	Gert Reinberger	SEWoH Globalvorhaben Agrarfinanzierung – Programme Director	29 Sep 2022 - online
	Agripreneurship Alliance	Anne Roulin	President	27 Sep 2022 - online

7.2. Promising international agri-SME finance solutions



Uganda Green Enterprise Finance Accelerator (UGEFA)

Purpose/Objective: Facilitate the flow of green finance into the Ugandan SME sector through strengthening green SMEs and improving available financial mechanisms for SME debt financing	Financial Instrument Type: Loans/Grants
Implemented by: EU, adelphi, Finding XY	
 What is it about?	
 <p style="text-align: center;">UGANDA GREEN ENTERPRISE FINANCE ACCELERATOR</p> <div style="background-color: #0056b3; color: white; padding: 10px; border-radius: 15px; margin-top: 20px;"> <p>In Ethiopia... Comprehensive capacity building can be implemented to de-risk loans</p> </div>	<ul style="list-style-type: none"> • Green Finance Facility: <ul style="list-style-type: none"> ✓ Set up in partnership with commercial banks in Uganda ✓ Facilitates provision of debt finance for green SMEs by blending grant funding with debt finance ✓ Offers a comprehensive approach of capacity building support and grant funding to remedy knock out criteria which typically hamper access to finance for SMEs and leverages private sector capital • Builds a pipeline of bankable green enterprises, directly to commercial banks • Facilitates the provision of debt finance to finance SME growth • Provides post-investment capacity building support • Provides technical assistance to commercial banks
 Benefits*	
For SMEs	For Banks
<ul style="list-style-type: none"> • Increased finance-readiness of growth-oriented green SMEs; improved financial management and systems of SMEs • Lower collateral requirements • Lower total interest paid • Allows enterprises to access bigger ticket sizes 	<ul style="list-style-type: none"> • Extended portfolio; insights into new client segments (green SMEs) and new markets & green technologies • Lower transaction costs • Risk reduced or partially transferred
 Challenges Solved	
For SMEs	For Banks
<ul style="list-style-type: none"> • Lack of financial and accounting records • Non-convincing investment plans • Unsteady cash flows • Not resilient business models • High interest rates • Collateral needs 	<ul style="list-style-type: none"> • Lack of stable business models • Short life spans of SME existence • Questionable accuracy of financial records • SME leadership bottlenecks • High transaction costs
<small>* Not all benefits apply to every mechanism or funding facilitation instrument. However, the design criteria for all, seek to solve the challenges listed under the "Challenges Solved" section</small>	

For more information visit ugefa.eu



CARD SME Bank (Philippines)

Purpose/Objective:

Thrift Bank to increase MSME access to financing enabling the creation of jobs and thus reducing poverty

Financial Instrument Type:

Loans (w/ Technical Assistance)

Implemented by:

Canadian International Development Agency (CIDA), IFC, CARD Bank



What is it about?



In Ethiopia... Agri-finance strategies can be developed by banks to offer products that meet the needs of SMEs

- Thrift bank owned by CARD Bank, that focuses on increasing access to finance for MSMEs.
- IFC provided advisory support and a loan to the bank to lend to be lent to MSMEs, microfinance borrowers, and women in rural Philippines.
- The bank provides collateralized and non-collateralized loans to non-bankable but viable SME projects
- In SME lending, managers work closely with SMEs along the way, from the application until repayment
- Design of an agri-finance strategy (through IFC's advisory services)
- Primary clients of the Bank are "graduated" customers from the microfinance bank, CARD Bank.
- IFC assisted CARD-Pioneer Micro-Insurance develop insurance products to protect farmers from typhoon risks.



Benefits*

For SMEs

- Lower collateral requirements
- Close support along loan application and repayment
- Repayment can be based on production cycle

For Banks

- Increased regional reach
- Risk reduced
- Increased offer of products and services (lending platform, targeted loans, micro-insurance)
- Technical support to develop targeted products



Challenges Solved

For SMEs

- Seasonal cash flows
- High interest rates
- Collateral needs

For Banks

- Lack of stable business models
- Lack of knowledge of agri-business models

For more information visit www.cardmri.com/cardsmebank



Financing Ghanaian Agriculture Project (FinGAP)

Purpose/Objective:

Stimulate commercial lending to agribusiness in rural Ghana through grants (as pay for result incentives schemes) and guarantees

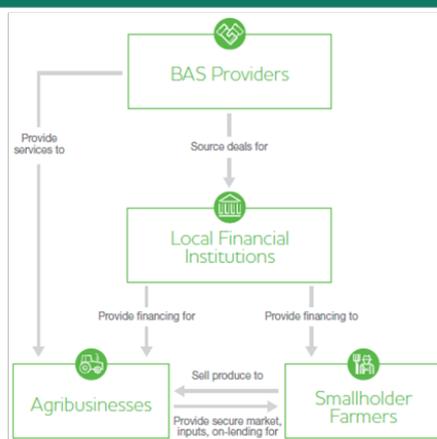
Financial Instrument Type:

Payment by Result (PBR), Guarantees Assistance (w/ Technical Assistance)

Implemented by:

USAID, Palladium

What is it about?



- 22 million USD, 5 year project, offering incentives for FIs and Business Development Service (BDS) providers via pay-for-results (PFR) schemes
- PFR approach:
 - ✓ Contracted BDS providers were paid success fees upon meeting targets for deal identification, structuring, and financial closure.
 - ✓ Selected FIs were placed on performance-based grants, disbursed when achieving increased lending outcome (self-determined) targets.
- Providing technical assistance to FIs, BDS providers, SMEs and key government institutions

In Ethiopia... PBR schemes could incentivize both financial institutions to lend to SMEs and BDS providers to facilitate finance

Benefits*

For SMEs and BDS providers

SMEs:

- Agri-businesses increase their investment in inputs such as seeds and fertilisers
- Increased ability to access finance

BDS providers:

- Increase in client bases
- Increase in revenue from agriculture clients

For Banks

- Risk reduced
- Capacity building support to develop targeted products
- Increased their loans to agri-businesses, thus increasing their revenues

Challenges Solved

For SMEs

- Impaired access to agricultural inputs
- High interest rates
- Collateral needs
- Lack of financial literacy

For Banks

- High risk
- Lack of tailored products and services
- Lack of knowledge of agri-business models

For more information visit <https://thepalladiumgroup.com/news/Transforming-the-Agrifinance-Market-System-in-Ghana>



Sustainable Landscapes Portfolio Guarantee (India)

Purpose/Objective:

Enable lending by local partner FIs to SMEs, co-operatives, producer companies and microfinance institutions engaged in sustainable landscape investments

Financial Instrument Type:

Guarantees

Implemented by:

USAID, Rabobank foundation, Anaya Finance

What is it about?



© USAID 2022. Shimla District, Himachal Pradesh

In Ethiopia... Banks could increase collaboration with cooperatives, MFIs and producers to increase reach to SMEs

- Provides up to 15.3 million USD in local financing to SMEs, co-operatives, producer companies and microfinance institutions.
- The loan portfolio guarantee encourages projects that practice low-emission land use management.
- Borrowers include:
 - ✓ SMEs sourcing or reliant on non-timber forest products
 - ✓ SMEs practicing reduced tillage and reduced use of chemical fertilizers and/or agroforestry systems adoption
- Encouraging private sector lending by proving the long-term commercial viability of lending to the sustainable landscapes sector

Benefits*

For SMEs

- Lower collateral requirements
- Capacity building and mentoring on financial management
- May gain additional access to other donor-supported initiatives in the forestry, agriculture and natural resource management sectors

For Banks

- Increased regional reach
- Risk reduced
- Increased offer of products and services (lending platform, targeted loans, micro-insurance)
- Technical support to develop targeted products

Challenges Solved

For SMEs

- High interest rates
- Collateral needs
- Lack of financial literacy and business management skills

For Banks

- Lack of awareness on long-term commercial viability of lending to the sustainable landscapes sector
- High transaction costs
- High risks

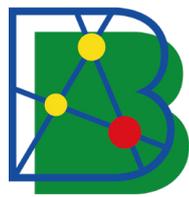
For more information visit <https://www.anayafinance.com/ourexperience>

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