PROGRAM/ACTIVITY DATA:

Program/Activity Number: 663-DCA-17-013
  DCA Loan Portfolio Guarantee Agreement with Addis International Bank
Country/Region: Ethiopia, East Africa
Functional Objective: Economic Growth
Program Areas: Economic Opportunity
Program Elements: Finance Sector Capacity Building
Program Activity/Title: Development Credit Authority (DCA)
Funding Begin: FY 2013
Funding End: FY 2019
LOP Amount: $266,592 (DCA subsidy amount)
Loan Amount Guaranteed: $5,000,000

IEE Expiration: March 31, 2025
Current Date: September 14, 2017
IEE Amendment (Y/N): N

ENVIRONMENTAL ACTION RECOMMENDED: (Place X where applicable)
Categorical Exclusion: Negative Determination: ___X____
Positive Determination: Deferral: ___________

ADDITIONAL ELEMENTS: (Place X where applicable)
CONDITIONS  X  PVO/NGO: ________________

IEE Prepared by: Fasika Jiffar, Senior Micro-Small & Medium Enterprise Specialist

RELATED DOCUMENTATION:
• USAID/Ethiopia DO1 - Economic Growth and Resilience Increased IEE: Ethiopia_Econ Growth Resilience
SUMMARY OF FINDINGS:

The purpose of this IEE in accordance with 22CFR216 is to provide the first review of the reasonably foreseeable effects on the environment, as well as recommend Threshold Decisions for USAID/Ethiopia’s DCA Loan Portfolio Guarantee Agreement (LPG) with Addis International Bank, hereinafter referred to as the Guaranteed Party or the Bank. This IEE supersedes the Development Objective 1 IEE; therefore, the Development Objective 1 IEE does not apply to this activity with the Bank.

The planned LPG will provide a significant number of small- and medium-sized loans, possibly from 25 to 50, which meet certain criteria related to agricultural value chain activities. In addition, USAID will require the Bank to provide documentation and insist through the IEE that the IP or COR interfaces with the bank on the matter.

The following threshold decisions are recommended:

Negative Determination with Conditions is recommended pursuant to 22 CFR 216.3 (a) (2) (iii) for the LPG intended to increase the borrower’s access to loans for expansion of their existing business in chickpea, coffee, dairy, livestock, maize, and poultry. Also, businesses such as commercial farm service centers, veterinarians providing artificial insemination services, storage/warehousing facilities, and other similar small- and medium-sized enterprise (SME) activities will be considered as beneficiaries of the project.

This Negative Determination is subject to the conditions that:

a) The Guaranteed Party shall provide for review by the USAID Mission Environmental Officer (MEO) and the Regional Environmental Advisor (REA) a copy of its environmental policies and procedures as a condition precedent to the Guarantee Agreement.

b) In the event that the guaranteed Party does not have its own environmental policy, it will request customers to provide environmental impact assessment document approved by the Ethiopian Environmental Protection Agency (EPA) which is the mandated government institutions for all environmental impacts related decisions. No loan will be approved without an approved EIA document by EPA.

c) USAID, including the MEO and REA, will evaluate the lender’s environmental policies for sufficiency to ensure compliance with the environmental provisions of the standard language in the Guarantee Agreement.

d) If the lender’s capacity is judged, in this evaluation, to be insufficient, USAID/Ethiopia will provide for appropriate lender capacity building. This capacity building activity will be designed in coordination with the MEO and REA.

e) The USAID/Ethiopia Economic Growth Office will periodically review the Guaranteed Party’s and the Borrower’s implementation of this requirement, including during project monitoring visits.

f) Environmental compliance will comprise one of the performance measures of the project’s mid- and/or end-term technical evaluation to be carried out by the USAID Team responsible.

and Small Enterprises, (http://www.encapafrica.org/egssaa.htm#III), must inform compliance with these conditions.

h) The Guaranteed Party shall develop and provide for USAID/Ethiopia review and approval a Compliance Plan documenting how their project will implement and verify all IEE conditions that apply to their activities. The Compliance Plan shall identify how the Guaranteed Party shall assure that IEE conditions that apply to activities supported under the loans are implemented.

i) The Guaranteed Party shall integrate their Compliance Plan into their project work plan and budgets, implement the Compliance Plan, and report on its implementation as an element of regular project performance reporting. The Guaranteed Party shall assure, through training as described above, as well as the Compliance Plan that loan recipients integrate implementation of IEE conditions, where applicable, into their own project work plans and budgets and report on their implementation as an element of loan performance reporting.
APPROVAL OF ENVIRONMENTAL ACTION RECOMMENDED
Ethiopia_DCA_Addis_International Bank_IEE

Approval:
Leslie Reed
Mission Director: [Signature] Date 09/18/2017

CONCURRENCE:
Brian Hirsch
Bureau Environmental Officer: [Signature] Date 02/21/2017

IEE File #: Ethiopia DCA Addis Int. Bank IEE

CLEARANCES:
Yitayew Abebe
Mission Environmental Officer/Climate Change Integration Lead: [Signature] Date 09/15/2017

Steve Morin
Office Director, Economic Growth & Transformation: [Signature] Date 9/18/17

Muriel Moody Korol
Mission Resident Legal Advisor: [Signature] Date 9/15/2017

David Kinyua
Regional Environmental Advisor: [Signature] Date 09/14/2017
INITIAL ENVIRONMENTAL EXAMINATION

PROGRAM/ACTIVITY DATA:

Program/Project Title:  Development Credit Authority (DCA)
DCA Loan Portfolio Agreement with Addis International Bank

Country/Region:  Ethiopia/East Africa

Program/Activity Number:  663-DCA-17-013

1.0 BACKGROUND AND ACTIVITY/PROGRAM DESCRIPTION

1.1 Purpose and Scope of IEE

The purpose of this IEE, in accordance with 22CFR216, is to provide the first review of the reasonably foreseeable effects on the environment, as well as recommend Threshold Decisions, for USAID/Ethiopia’s DCA Agricultural value chain Loan Portfolio Guarantee. This IEE provides a brief statement of the factual basis for a Threshold Decision as to whether an environmental review is required for the activities managed under this program. Additionally, this IEE supersedes the Development Objective 1 IEE; therefore, the Development Objective 1 IEE does not apply to this activity with Addis International Bank.

1.2 Background

Feed the future, the U.S. Government global food project, has focused mainly on small holder farmers in target regions, such as, Amhara, Oromia, SNNPR, and Tigray regions. The major activities of the project to achieve its objective are to provide financial services, technical assistance, and market based service to targeted beneficiaries on a sustainable basis.

Since 1999, USAID Ethiopia has been implementing USAID’s credit guarantee program (implemented through the Development Credit Authority, or “DCA”) to support the Mission’s ongoing agricultural development efforts. To date, USAID/Ethiopia has facilitated increased access to finance through 16 guarantees with nine different Ethiopian private commercial banks. These guarantees have facilitated $68.1 million in potential working capital and investment loans to 135 business projects. Thus far, $50.9 million has been disbursed under these guarantees, mostly to SME businesses engaged in a variety of agricultural-related business. However, due to high liquidity constraints in the market, partner banks haven’t been able to fulfill the demand of clients at full scale. The mission has been working on designing two additional DCA guarantees to be signed with a new partner bank and an existing, well-performing bank.
The planned new facility is mainly targeting the agricultural value chain producers operating in AGP value chain regions and woredas, and engaging on chickpea, coffee, maize, dairy, meat processing, and poultry agricultural projects. In addition, most of the existing partner and new banks showed high interest to working with USAID/Ethiopia, through our consultation and market assessment process. However, due to liquidity constraints, only Addis International Bank feels capable of pursuing the DCA to expand its markets to those who might otherwise forgo loans.

1.3 Activity Description

The major focus of the new planned DCA guarantees is small-scale business, mostly owned and managed by youth and women’s groups, who have been involved in the development of Agricultural Commodity Cultures (ACCs) designed to link input suppliers, local farms, domestic agro-processors and consumer markets in areas where regional agro-climatic conditions could encourage for increasing productivity, scale up and concentration of commodities and value-added produce. USAID is particularly interested in supporting investments in businesses related to chickpea, coffee, dairy, livestock, maize, and poultry. Addis International Bank is willing to serve new clients, particularly because USAID provides partial credit guarantees and technical assistance.

The terms of the DCA are established through agreement with Addis International Bank. The portfolio ceiling is $5,000,000 with a Pari Passu guarantee of $2.5 million, the maximum exposure for USAID. The bank will pay an origination fee of $25,000 and a utilization fee of $24,069 (net present value). The loans under the DCA portfolio are likely to be an average of $200,000 and mature in an average of 2.5 years. The technical assistance component includes the package services, including business plan review and consultation, business management training, skill training, market development and promotion, market information, market linkages, introducing innovative and improved technologies and all other required activities by the beneficiary Institutions.

1.4 Outputs, Outcomes and Impacts

**OUTPUTS:** Increased lending of $5 million to agricultural farmers and SMEs, which will enable these businesses to expand their operations and increase their products and services to large parts of communities living in rural and urban areas of the country.

**OUTCOMES:** The bank will develop a unit to manage donor and development finance institutions and SMEs promotion. Also, the lender will significantly increase the proportion of its portfolio made up by loans to agricultural SMEs.

**IMPACTS:** By the end of the program, the participant banks should no longer require a guarantee or technical assistance to extend their marketing programs for savings or lending services to smallholders, youth or women who are associated with the development of ACCs or along value chains respective rural and urban markets. As a result, most of the beneficiary projects would have capacity for building of an asset base.
which can be utilized as collateral for future loans outside of the guarantee coverage.

2.0 COUNTRY AND ENVIRONMENTAL INFORMATION (BASELINE INFORMATION)

2.1 Country Overview
Ethiopia's economy is based on agriculture but suffers serious constraints. It accounts for 46% of GDP, 85% of employment, and 90% of exports. An estimated seven million smallholder farmers produce ninety percent of the crops in Ethiopia. The private sector and the state farms produce the remaining ten percent. Crop resources play the major role in food security, income generation, and provision of industrial raw materials as well as the creation of employment opportunities. Ethiopia also has the largest livestock population in Africa. Livestock account for approximately thirty percent of the agricultural gross domestic product (GDP) and sixteen percent of the national foreign currency earning (second only to coffee).

Ethiopian farmers suffer frequent drought, poor cultivation practices, and limited private sectors investment. Under Ethiopia's constitution, the state owns all land and provides long-term leases to the tenants, which limits the ability of usufruct holders and producers to use land as collateral for loans. Increasing agricultural productivity faces serious constraints, particularly the large proportion of the population (over 80% of households) engaged in small-scale agriculture (0.5 -2 ha per household).

The most challenging obstacle for agricultural sector development, particularly for women owned businesses, is lack of access to working capital to expand their businesses. Most women owned businesses have been forced to use outdated technology for production, packaging, transporting and processing.

2.2 Market Imperfection

According to the National Bank of Ethiopia, over the past five years, the GTP created a total of three million SMEs. The total loan amount received from microfinance institutions was about Br 1.08 billion. However, the SME sector has encountered major challenges related to market access, affordable technology, sufficient finance, entrepreneurship ideas and management skills. Notably most women-owned businesses only accessed 4% of their startup capital from commercial banks, where banks require 100 to 200 percent of collateral. The DCA LPG has a significant role to create an enabling environment to help women access commercial bank financing for the first time by providing 50% risk sharing mechanism through the DCA mechanism.

USAID Ethiopia has been implementing the DCA, or commonly known as the "partial loan guarantee" program since 1999. The first such program, called the "Micro and Small Enterprises Development" (MSED) program, was supported agricultural development efforts through a portfolio loan portfolio guarantee program established with the Bank of Abyssinia. This guarantee provided a 50% risk sharing arrangement for short term loans provided for seasonal crop production loans made by the Bureau of Agriculture to farmer cooperatives unions established in four regions. This program represented a breakthrough...
initiative that allowed a private bank to make loans to small holder agricultural producers. Many other banks soon followed and presently four Ethiopian private and commercial banks are actively involved in the DCA program, which has also expanded to include lending to women entrepreneurs, cooperative unions as well as other focus beneficiaries. In total, USAID Ethiopia has leveraged close to $50 million of lending using the DCA program. The number of beneficiaries under the facilities is constantly growing, with close to 320 projects supported to date and with the number of new applications steadily increasing.

2.3 Target Beneficiaries

The target beneficiaries are small farmers and owners of small to medium sized businesses who seek to expand or improve their operations. The beneficiaries are located in Tigray, Amhara, Oromia, and SNNPR. Most will likely be located in woredas participating in the Agricultural Growth Program II and have opportunities to work with or support new agro-industrial parks within approved agricultural commodity clusters. They will most likely be youth and women entrepreneurs or members of Common Interest groups that wish to or are already producing one or more of the goods in value chains and agribusiness that support them. They will also likely receive supported by the Feed the Future Ethiopia Value Chain Activity, Growth Through Nutrition, or Livelihoods. Most will either have insufficient collateral and, therefore, be in need of a debt financing vehicle that reduces the collateral requirements.

3.0 EVALUATION OF PROJECT/PROGRAM ISSUES WITH RESPECT TO ENVIRONMENTAL IMPACT POTENTIAL

The objective of this DCA activity is to increase access to finance small farmers and owners of small businesses, the majority of which are either are engaged in or support chickpea, coffee, dairy, livestock, maize, and poultry value chains. This includes businesses such as commercial farm service centers, veterinarians providing artificial insemination, and storage/warehousing facilities.

The mission is negotiating a loan portfolio guarantee agreement with Addis International Bank. The guarantee is expected to serve from 25 to 50 small loans to previously unidentified SMEs. USAID can require the bank provide documentation and insist through the IEE that the IP or COR works with the bank on all compliance matters.

During the DCA risk assessment, the financial institutions were verified to have the procedures in place to comply with Ethiopian environmental laws (which they should have otherwise they wouldn't have been licensed by the central bank).

Since the specific intent of DCA guarantees is to stimulate lending (and thus the activities supported by that lending) that would not otherwise take place. Thus, even in situations in which USAID will not exert direct control over the loan-making process or over
borrowers’ use of USAID-backed financing (i.e., how guaranteed funds are put to use on the ground), USAID bears partial responsibility for any unintended adverse impacts. USAID has a dual responsibility: (1) to ensure that financial intermediaries receiving guarantees have functional environmental due diligence processes in place for their DCA supported loans that enforce requirements of the “standard language,” and beyond this, compliance with host country requirements; and (2) to provide complementary TA to entities receiving DCA-backed loans to support compliance and good practices.

To mitigate these issues, DCA guarantees include the standard language (Appendix A) that withholds DCA credit guarantees’ coverage from environmentally “high risk” activities (i.e. cases where Reg. 216 requires an EA and activities restricted by sections 118 & 119 of the Foreign Assistance Act), except with USAID prior review and approval. That is, if such a loan is made without first obtaining USAID approval, DCA will provide no coverage in case of default. This provision sends a clear message to financial intermediaries and borrowers regarding the importance of environmental due diligence. It also provides important legal protection for USAID. However, it is not sufficient for purposes of environmental good practice or compliance.

As a result, to mitigate potential adverse environmental impacts, USAID/Ethiopia will:

a. ensure that financial intermediaries receiving DCA credit guarantees have functional environmental due diligence processes in place for their DCA-supported loans that enforce requirements of the “standard language,” and beyond this, compliance with host country requirements; and

b. Provide complementary technical assistance to entities receiving DCA-backed loans to support compliance and good practice.

4.0 RECOMMENDED THRESHOLD DECISIONS & MITIGATION ACTIONS (INCLUDING MONITORING AND EVALUATION)

Negative Determination is recommended pursuant to 22 CFR 216.3(a)(2)(iii) for the Commitment Agreement and the Loan Agreement intended to increase the Borrower’s access to loans for expansion of its agribusiness activities in Ethiopia, subject to the conditions that:

a) The Guaranteed Party shall provide for review by the USAID Mission Environmental Officer (MEO) and the Regional Environmental Advisor (REA) a copy of its environmental policies and procedures as a condition precedent to the Guarantee Agreement and the Commitment Agreement, respectively.

b) In the event that the guaranteed Party does not have its own environmental policy, it will request customers to provide environmental impact assessment document approved by the Ethiopian Environmental Protection Agency (EPA) which is the mandated government institutions for all environmental impacts related decisions. No loan will be approved without an approved EIA document by EPA.

c) USAID, including the MEO and REA, will evaluate the lender’s environmental policies for sufficiency to ensure compliance with the environmental provisions of the standard language in the Guarantee Agreement.
d) If the lender’s capacity is judged, in this evaluation, to be insufficient, USAID/Ethiopia will provide for appropriate lender capacity building. This capacity building activity will be designed in coordination with the MEO & REA.

e) The USAID/Ethiopia Economic Growth Office will periodically review the Guaranteed Party’s and the Borrower’s implementation of this requirement, including during project monitoring visits.

f) Environmental compliance will comprise one of the performance measures of the project’s mid- and/or end-term technical evaluation to be carried out by the USAID Team responsible.


h) The Guaranteed Party shall develop and provide for USAID/Ethiopia review and approval a Compliance Plan documenting how their project will implement and verify all IEE conditions that apply to their activities. The Compliance Plan shall identify how the Guaranteed Party shall assure that IEE conditions that apply to activities supported under the loans are implemented.

i) The Guaranteed Party shall integrate their Compliance Plan into their project work plan and budgets, implement the Compliance Plan, and report on its implementation as an element of regular project performance reporting. The Guaranteed Party shall assure, through training as described above, as well as the Compliance Plan that loan recipients integrate implementation of IEE conditions, where applicable, into their own project work plans and budgets and report on their implementation as an element of loan performance reporting.
Appendix A: USAID Standard Environmental Loan Provisions

USAID Standard DCA Loan Provisions include the proviso that approval of loans will be contingent upon the submission by the Guaranteed Party of evidence sufficient to demonstrate compliance with local environmental laws and to enable USAID to make an assessment of the environmental impact of such activities.

(a) The Loan must not be used to finance any of the following:
   (i) Goods or services which are to be used primarily to meet military requirements or to support police or other law enforcement activities;
   (ii) Surveillance equipment;
   (iii) Equipment, research and/or services related to involuntary sterilization or the performance of abortion as a method of family planning; or
   (iv) Activities which significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas,

(b) The Loan must not be used to finance any of the following without the prior written approval of USAID:
   (i) Pharmaceuticals;
   (ii) Pesticides;
   (iii) Logging equipment;
   (iv) Luxury goods (including alcoholic beverages and jewelry);
   (v) Establishing or expanding any enterprise that will export raw materials that are likely to be in surplus in world markets at the time such production becomes effective and that are likely to cause substantial injury to U.S. producers;
   (vi) Activities which would result in the loss of forest lands due to livestock rearing, road construction or maintenance, colonization of forest lands or construction of dams or other water control structures;
   (vii) Activities which are likely to have a significant adverse effect on the environment, including any of the following (to the extent such activities are likely to have a significant adverse impact on the environment):
       • Programs of river basin development;
       • Significant irrigation or water management projects (including dams and impoundments);
       • Agricultural land leveling;
       • Major drainage projects;
       • Large scale agricultural mechanization;
       • New lands development;
       • Resettlement projects;
       • Penetration road building or road improvement projects;
       • Construction of power plants or industrial plants; or
       • Large scale potable water and sewerage projects
   (viii) Activities which are likely to involve the loss of jobs in the United States due to the relocation or expansion outside of the United States of an enterprise located in the United States, or
   (ix) Activities which the Guaranteed Party is aware are reasonably likely to contribute to the violation of internationally recognized rights of workers.
Approval of loans to finance activities described in subsections (ii), (iii), (vi) or (vii) above will be contingent upon the submission by the Guaranteed Party of evidence sufficient to demonstrate compliance with local environmental laws and to enable USAID to make an assessment of the environmental impact of such activities.
<table>
<thead>
<tr>
<th>Tasks/Defined or Illustrative Interventions</th>
<th>Climate Risks</th>
<th>Risk Rating</th>
<th>How Risks Addressed/Accepted</th>
<th>Opportunities to Strengthen Climate Resilience (optional)</th>
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<tbody>
<tr>
<td><strong>Crop production</strong></td>
<td>Rainfall irregularities may result in reduced crop production and productivity thereby aggravating food insecurity of the target communities</td>
<td>Medium</td>
<td>● Promote short maturing and drought tolerant local varieties and tested crops at research centers suited to the local climate</td>
<td>The project will give due focus to climate change adaptation and resilience trainings to target community members and stakeholders</td>
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</table>
| **Livestock**                             | High temperature and dryness may result in water and pasture shortage | Medium | ● Promote animal feed plantation on conserved and rehabilitated watersheds  
● Promote community ponds and ark-dams to collect runoffs during rainy season | Increase community awareness to shift to keeping small number of livestock with better productivity against the traditional way of keeping large number of animals which are less productive |