EVALUATION OF DCA GUARANTEE TO BANK OF ABYSSINIA, ETHIOPIA

REPORT

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FEBRUARY 26, 2010

This publication was produced for review by the United States Agency for International Development. It was prepared by SEGURA/IP3 Partners LLC under the SEGIR Global Business, Trade and Investment II Indefinite Quantity Contract (IQC), Number EEM-I-00-07-00001-00 Task Order # 04, Development Credit Authority Evaluations

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ACKNOWLEDGEMENTS

The evaluator thanks the USAID staff who gave willingly of their time to arrange meetings and logistics, provide information, and solve any problem that came along. Mr. Fasika Jiffar worked tirelessly to coordinate with the evaluator and BOA, find people with whom the evaluator could meet, and dig up data on the Ethiopian banking sector. He facilitated all arrangements with a smile and was a true colleague throughout the evaluation. Mr. Joseph Obi and Mr. Kofi Owusu-Boakye willingly gave of their time to orient me, answer my multitude of questions prior to the field work, and provide me with any and all data I could use. The evaluator also thanks Ms. Nancy Leahy for her on-going technical guidance.

I am grateful to Mr. Anteneh Assefa, Vice President of Bank of Abyssinia, and his competent staff, who made me feel welcome and supported in every way. They spent precious time coordinating meetings with borrowers and staff and were instrumental in arranging my site visits. BOA Hawassa Branch Manager Mr. Ato Getahun sacrificed two entire work days to accompany me to visits to coffee processors and answer my questions. This evaluation could not have happened without all of you.

ACRONYMS

ACE	Agricultural Cooperatives in Ethiopia
BDS	Business development services
BOA	Bank of Abyssinia
CBE	Commercial Bank of Ethiopia (state-owned)
CBO	Cooperative Bank of Oromia
CMS	Credit Management System
DBE	Development Bank of Ethiopia
DCA	Development Credit Authority
EGAT/DC	Bureau of Economic Growth, Agriculture and Trade / Office of Development Credit
FCC	Federal Cooperative Commission
FCU	Farmers Cooperative Union
LPG	Loan portfolio guarantee
MFI	Microfinance institution
MSED	Micro-and Small Enterprise Development
NBE	National Bank of Ethiopia (central bank)
NPL	Nonperforming loan
SCC	Savings and Credit Cooperative
SNNP	Southern Nations, Nationalities, and Peoples
USAID	U.S. Agency for International Development

EXECUTIVE SUMMARY

Ethiopia is blessed with approximately 107,600 square kilometers of arable land (about 11 percent of its territory);[1] yet, it has struggled for many years to feed its people. Government policies have wreaked havoc among Ethiopia's farmers with drastically changing land use rights.

One problem Ethiopia's farmers face is lack of access to finance, which they need to modernize their practices and purchase machinery. As of June 2000, most lending to the agriculture sector was still from the state-owned Commercial Bank of Ethiopian (CBE) and the Development Bank of Ethiopian (DBE), which provided 99 percent of the banking sector's outstanding agriculture loan value at the time. Even so, agricultural lending made up only 8 percent of the total value of outstanding loans.

USAID's Bureau of Economic Growth, Agriculture and Trade / Office of Development Credit (EGAT/DC) and the Ethiopia Mission responded to this lack of finance by providing a series of Micro and Small Enterprise Development (MSED) and Development Credit Authority (DCA) loan portfolio guarantees (LPGs) to the Bank of Abyssinia (BOA), a long-standing, private Ethiopian bank. USAID designed the LPGs to support BOA lending, first to agricultural cooperative unions, and then to the agriculture sector in general. The LPGs with BOA span 15 years, from the end of 1999 through 2014.

The table below summarizes key characteristics of the MSED and DCA guarantees.

TABLE 1: MSED AND DCA LPGS TO BANK OF ABYSSINIA, SUMMARY OF DATA

LPG	Starting Year	Ending Year	Ceiling Amount ($)	Number of Loans	Aggregate Amount ($)	Utilization Rate	Median Loan Size ($)	Average Loan Tenor (months)
MSED 1	1999	2004	650,000	27	2,705,538	100%	70,726	4.71
MSED 2	2003	2004	250,000	6	383,546	76.71%	66,125	1.37
DCA	2004	2014	2,250,000	38	8,178,511	90.87%	172,414	15.35

Source: USAID Credit Management System

In November 2009, EGAT/DC contracted SEGURA/IP3 Partners LLC to conduct an evaluation of the MSED and DCA guarantees provided to BOA. This evaluation is the seventh in a series of 20 evaluations[2] of DCA guarantees planned for the next 3 years to assess the outputs, outcomes, and impacts of these guarantees. Individually and together, these evaluations are meant to provide EGAT/DC with information to:

[1] CIA World Factbook, Ethiopia entry

[2] The first six were in Ghana, Honduras, Indonesia, Russia, Philippines, and Rwanda.

1. Demonstrate and communicate to DCA stakeholders the contributions of DCA loan guarantees to the achievement of development results;
2. Contribute to the dialogue about how to engage financial sector institutions as partners in development;
3. Strengthen USAID's application of DCA as a tool for achievement development results; and
4. Influence the design of new guarantees.

The scope of work for this evaluation asks the evaluator to examine the results of the MSED and DCA guarantees to BOA at three levels: output, outcome, and impact. At the output level, USAID asked the evaluator to examine the additionality of the guaranteed loans; that is, what differentiates these loans and the way the bank used them from business as usual at BOA. Outcome-level questions focus on determining the extent to which use of the guarantees has produced changes in BOA's non-guaranteed lending. Impact-level assessment seeks to determine whether changes in BOA's behavior have encouraged other, non-partner banks to increase lending to the agriculture sector. In addition, EGAT/DC asked the evaluator to analyze the effects of exogenous factors on changes observed at the three levels. The evaluator wove the exogenous factors through the report's findings, as appropriate.

Evaluation Questions in Brief

Output level—How did BOA use the guarantees?
Outcome level—Did BOA's experience with the guarantees help improve access to credit for agricultural borrowers through its lending outside the guarantee coverage?
Impact level—Did the guarantees have a demonstration effect that resulted in other lenders improving access to credit for the agriculture sector?
Exogenous factors—What exogenous factors have affected the performance of the guarantees at the output, outcome, and impact levels?

This evaluation used a mixed methods approach, including statistical analysis of loan data, key informant and group interviews, and document review. The evaluation began in November 2009 with initial discussions with EGAT/DC to obtain a better understanding of the guarantee, its objectives and context, and key players with whom the team should meet while in Ethiopia. After reviewing background documents on the guarantees (see Annex IV) from EGAT/DC, the evaluator revised the generic evaluation framework for all of the DCA evaluations to fit the BOA guarantees' objectives and context, and developed indicators to measure the outputs, outcomes, and impacts of the guarantee.

The evaluation continued in Ethiopia from December 7 to 18, 2009, including semi-structured interviews with BOA staff and clients, the USAID Mission in Addis Ababa, and other financial sector experts, such as other Ethiopian banks. The evaluator also collected additional documents from interviewees, as well as lending data from BOA.

Back in the United States, the evaluator used a combination of comparative analysis, statistical analysis, and content pattern analysis to draw findings from all of the collected data, from which she drew conclusions.

Data limitations included (a) lack of data on BOA's nonguaranteed lending to the agriculture sector, (b) insufficient time and resources to survey statistically significant numbers of guaranteed and nonguaranteed borrowers, and (c) conflicting data from the National Bank of Ethiopia (central bank) and BOA annual reports. However, the evaluator does not believe these limitations significantly impact the conclusions presented in this report.

The Ethiopian Government has recently begun leasing land to foreign governments and companies to attract investment, foreign currency, new technology, and resources. It is unclear at this point what impact this practice is having on the agricultural finance market. None of the interviewees mentioned the practice as affecting either demand for or supply of credit to agricultural entities, but critics and proponents alike predict there will be significant effects in the future.

Output-level Conclusions and Findings

Evaluation Question 1.a: Why did Bank of Abyssinia enter into the guarantees?

Conclusions:
Bank of Abyssinia wanted to lend to the agriculture sector because it plays a major role in the country and economy and because export sub-sectors generate desired foreign currency. At the same time, the bank saw agricultural borrowers as risky because they lacked collateral.

Findings:

- BOA statistics show it had not lent to the agriculture sector prior to 1999 and it only began to do so with its first MSED guarantee.
- BOA's Vice President said the bank was interested in lending to the agriculture sector as a vital part of the country's economy and because agricultural exports have the potential to generate foreign currency.
- Interviewees added that most potential agricultural borrowers lacked sufficient collateral to qualify for commercial loans.

Evaluation Question 1.b: How did Bank of Abyssinia implement its loan guarantee programs that was different from implementation of its existing portfolio? And why?

Conclusions:
BOA used the LPGs to subsidize collateral requirements for guaranteed borrowers. Unlike some other USAID-supported banks, BOA advertised the guarantee program to potential borrowers, consistent with USAID/Ethiopia's and ACDI/VOCA's active marketing efforts. To counteract potential moral hazard, the bank devoted more management resources to the USAID-guaranteed portfolio than it normally does to its other loans.

Findings:

- BOA counted the USAID guarantees as fulfillment of 50 percent of the standard collateral requirement, thereby enabling agricultural cooperatives short of reasonably liquid collateral to obtain credit.
- The Ethiopia Mission chose to advertise the guarantees to both partner banks *and* potential borrowers in order to encourage use.
- According to BOA HQ staff, the bank created awareness about the availability of the guaranteed loan facility in two ways: (1) identified potential loan recipients, met with them, and told them about the bank's products; and (2) sponsored trade fairs and exhibitions and marketed through them.
- BOA put a head officer in charge of monitoring the guaranteed loans and channeled most guaranteed loans to two branches to facilitate management and ensure they did not fail.

Evaluation Question 2.a: What was the additionality of the guarantee?
Evaluation Question 2.b: What was the extent to which the DCA guarantee influenced changes in partner bank portfolio characteristics?

Conclusions:

Between 2000 and 2008, the USAID guarantees were responsible for increasing BOA's lending to the agriculture sector from 0 to an average of 2.3 percent of its total value of loans disbursed during the period.

Since BOA was unwilling to lend to potential borrowers with insufficient or no collateral without the USAID guarantees, those guarantees enabled these borrowers to obtain loans larger than they would otherwise have received, if they could have qualified for any loan at all.

Through careful management, BOA's USAID-guaranteed portfolio has performed better than its overall portfolio, in terms of arrears.

Findings:

- The value of USAID-guaranteed loans disbursed during 2001 to 2007 represented between 0.3 and 6.7 percent of the total value of loans disbursed.
- All four of the private banks interviewed said they require at least 100 percent collateral from their borrowers.
- BOA said it would not have lent to the guaranteed borrowers without the guarantee because they lacked collateral.
- BOA had 142 million birr in provisions in 2008, but experienced only 1 million birr in NPLs in the USAID portfolio. The bank enjoyed a 100 percent recovery rate from the cooperative unions.

Outcome-level Conclusions and Findings

Evaluation Question 3.a: To what extent were desired outcomes achieved so far, as intended in the Action Package and/or Legal Agreement, outside the protection of the MSED / DCA guarantees? What is the potential for sustainability of these outcomes?
Evaluation Question 3.b: What factors at the partner bank level can be associated with achievement of desired outcomes?

Conclusions:
The USAID guarantees encouraged BOA to enter the agriculture finance sector and the bank will likely continue to lend to this sector, but only to exporters for the near future. The USAID guarantees introduced BOA to agricultural exporters, which BOA discovered can be valuable conduits of foreign currency. BOA continued to lend to 20 percent of the formerly USAID-guaranteed borrowers because they were profitable. Loan terms have changed somewhat, as some former USAID-guaranteed borrowers received preferential loan terms.

Findings:

- According to data which BOA provided to the evaluator, the bank has given nonguaranteed loans to eight of the borrowers who first came to the bank under the USAID guarantee program. Six of the eight borrowers were coffee processors and/or exporters and the remaining two handled grain and livestock.
- BOA's lending to agriculture grew 102 percent between 2001 and 2009.
- The Vice President/Operations of BOA told the evaluator that the bank's nonguaranteed lending to the agriculture sector has focused primarily on export crops, especially coffee and sesame and recently, cattle. The focus on exportable goods results from the bank's need for foreign currency.
- Of the eight borrowers who graduated from the USAID guarantees, seven provided collateral valued at less than 100 percent of the loan amount plus interest they received.
- On average, USAID-guaranteed loans were 618,006 birr higher than nonguaranteed loans to the same borrowers.
- BOA's nonguaranteed lending to the agriculture sector has varied from approximately 2.6 million birr to 11.8 million birr from 2004 to 2009.
- The Vice President/Operations of BOA said that while the bank has been lending to the agriculture sector without the guarantee, it has only been to those enterprises with solid lending histories with other banks. The bank is not comfortable providing loans to new customers with insufficient collateral.

Impact-level Findings and Conclusions

Evaluation Question 4.a: Did other, non-partner banks initiate or increase lending to the sectors / regions (agriculture/cooperative lending) targeted by the guarantees?

Conclusions:
All banks have increased their lending to the agriculture sector since 2000. Government-owned banks' behavior results from government policy focusing increasingly on supporting agriculture. The attractiveness of certain Ethiopian agricultural exports has motivated private banks to engage increasingly with the sector, along with a professed desire to support a sector that plays a large role in the country's economy. Exportable crops are profitable and generate foreign currency, which every interviewed bank is eager to have.

Findings:

- Agriculture's share of total Ethiopian bank lending has increased from 16 percent in 2001 to 20 percent in 2008, with the largest gain during the 2007-2008 fiscal year.
- The state-owned Development Bank of Ethiopia (DBE) began lending to the agriculture sector when it was first established 100 years ago as The Société Nationale d' Ethiopie pour le Dévelopment de l' Agriculture et de Commerce (National Society for the Development of Agriculture and Trade). Recently, the government has asked it to focus on supporting agricultural exports.
- The Commercial Bank of Ethiopia (CBE—state-owned) is following Ethiopian government policy to increase the country's self-sufficiency, said the director who was interviewed.
- Among private banks, three of the four that were interviewed emphasized the desire to help support the unbanked agriculture sector.
- Three private banks highlighted the fact that they can obtain foreign currency by lending to agricultural export sectors.

Evaluation Question 4.b: If so, what role did the MSED/DCA guarantees play as a demonstration model?

Conclusions:
The USAID guarantees to BOA did not play any perceptible role in other banks' decisions to lend to the agriculture sector. As explained above, all interviewed banks have other reasons for devoting more investment resources to agriculture.

Findings:

- None of the bank vice presidents that were interviewed(CBE, DBE, the National Bank of Ethiopia, Awash, Dashen) knew much of anything about BOA and nothing about its agricultural lending activities.

Evaluation Question 5.a: Did loan access and/or terms change for borrowers within the targeted sectors overall?
Evaluation Question 5.b: If so, how and why?
Evaluation Question 5.c.: What role did the MSED/DCA guarantees play as a demonstration model?

Conclusions:

Loan access has improved somewhat over the last 10 years, especially in the last 5, mainly because of the efforts of the government banks and the Cooperative Bank of Oromia, which provide collateral-free loans to agricultural exporters and cooperatives, respectively. Other private banks lower collateral requirements for some exporters to increase their foreign currency holdings. Some agriculture sector borrowers have increased their capital and are therefore able to qualify for larger loans with their own collateral.

The USAID guarantees clearly influenced BOA and Dashen Bank to increase lending to the agriculture sector. However, the agriculture finance sector appears to be still largely underserved and increases in lending have resulted from food price increases on the agricultural market and government policies.

Findings:

- All seven BOA borrowers interviewed realized an increase in loan size. Collateral requirements have changed little or not at all. However, the fact that five of the seven borrowers have received larger loans more recently than previously with little or no change in the collateral requirement suggests that those five built up enough collateral to qualify for more credit.
- Four banks introduced agricultural loan products.
- Asked whether they thought access to credit had changed at all for the agriculture sector over the last 10 years, 6 of the 7 borrowers interviewed said it had improved a little, while one thought access had declined a little. All said their credit needs are not currently met.
- Four coffee processors said that because the price of raw coffee has risen over the last 4 years, the purchasing power of borrowed funds is lower.
- A senior advisor at the Federal Cooperative Commission (FCC) said that the percent of credit demand among cooperatives that is satisfied is very limited.
- Six borrowers, four banks, and the FCC said that cooperatives, cooperative unions, and individual farmers still lack sufficient collateral to qualify for the loans they need.
- Four banks and three borrowers said that banks lack the capacity to assess the creditworthiness of agricultural borrowers and therefore rely on collateral to guard against the perceived riskiness of the agriculture sector.
- The vagaries of Ethiopian weather increase the riskiness of the agriculture sector.

- Two cooperative union representatives, a government bank, and the FCC said that cooperatives still need training to help them produce more profitably and manage loans they receive.
- Two cooperative representatives and two banks told the evaluators that lack of rural infrastructure poses a serious problem to both cooperatives' capacity to produce and transport their products, as well as to banks' ability to reach agricultural producers.
- The U.S. Department of State reported in 2007 that the Ethiopian Government had established a loan fund of $174 million through the DBE and provided land at low lease rates for export crops.

INTRODUCTION

The Development Problem

Ethiopia is blessed with approximately 107,600 square kilometers of arable land (about 11 percent of its territory);[3] yet, it has struggled for many years to feed its people. Government policies have wreaked havoc among Ethiopia's farmers with drastically changing land use rights.

The land reform proclamation of 1975 nationalized all rural land and allowed the government to provide parcels of land to farmers on a use-right basis. The large-scale, commercial, modern farms that had existed during Ethiopia's imperial period were converted into state farms. The government established peasant associations, each with approximately 800 hectares, to allocate land to farmers in their jurisdiction, according to family size.[4]

Ethiopia reportedly made few changes to its land policy between 1975 and 1984, aside from occasional land redistributions, and the sector's average annual growth did not rise above two percent between 1980 and the fall of the Derge (military junta) in 1991. In 1989, the Derge government halted land redistribution practices, which were restarted during the early part of the 21st century when land administration was taken away from regional governments and given to political bodies.[5]

Inefficient land policies combined with erratic weather patterns have resulted in pervasive starvation in some areas of Ethiopia. In 1984 the country suffered from a massive famine that killed almost one million people. In November 2002 Ethiopia's Prime Minister, Meles Zenawi, announced another famine as rains failed south of Addis Ababa.[6] August 2009 saw yet another famine in Ethiopia, again because rains failed in parts of the country.[7]

One problem Ethiopia's farmers face is lack of access to finance, which they need to modernize their practices and purchase machinery. Although agriculture accounted for 43.8 percent of Ethiopia's GDP in 2008 and employs an estimated 85 percent of the country's work force[8], lending to the sector accounted for no more than 13 percent over the last 10 years.[9]

Ethiopia's current banking system has been developing only since the early part of the previous century. When the Derge took over the country after a bloody revolution in 1974, it nationalized all

3 CIA World Factbook, Ethiopia entry
4 Bereket Kebede, 2006.
5 B. Nega, B. Adenew, S. Gebre Sellasie, 2003.
6 BBC News, November 11, 2002
7 The Independent, August 30, 2009.
8 CIA World Factbook, Ethiopia: https://www.cia.gov/library/publications/the-world-factbook/geos/et.html
9 'Year' is based upon the Ethiopian fiscal year, which runs from July 1 to June 30. Data from USAID/Ethiopia.

private banks and insurance companies.[10] By 1992 the Ethiopian financial sector consisted of five government-owned banks: the National Bank of Ethiopia (NBE—the central bank), the Commercial Bank of Ethiopia (CBE), the Housing and Savings Bank, the Agricultural and Industrial Development Bank, and the Ethiopian Insurance Corporation. In 1994 the government issued Monetary and Banking Proclamation No. 83/1994, giving the NBE increased autonomy and responsibility to supervise the banking system. The proclamation also opened the door for private banks to operate once again, alongside the state-owned financial institutions. With the Proclamation on the Licensing and Supervision of Banking and Insurance Businesses, six new, private banks were established: Awash International Bank, Bank of Abyssinia, Dashen Bank, Nib International Bank, United Bank, and Wegagen Bank. Dashen Bank was probably the earliest, established in 1995.[11]

By 1999, Ethiopia counted nine commercial banks, including three state-owned banks, as follows:[12]

- Bank of Abyssinia (BOA): private, est. 1996
- Awash International Bank: private, est. 1995
- Commercial Bank of Ethiopia (CBE): government, est. 1943
- Construction and Business Bank: government, est.1994 (re-organized; was Mortgage Bank before that)
- Dashen Bank: private, est. 1995
- Development Bank of Ethiopia (DBE): government, est. 1970
- Nib International Bank: private, est. 1999
- United Bank: private, est. 1998
- Wegagan Bank: private, est. 1997

As of June 2000 (the end of the 1999-2000 Ethiopian fiscal year), most lending to the agriculture sector was still from the CBE and the DBE, which provided 99 percent of the banking sector's outstanding agriculture loan value at the time. Even so, agricultural lending made up only 8 percent of the total value of outstanding loans.

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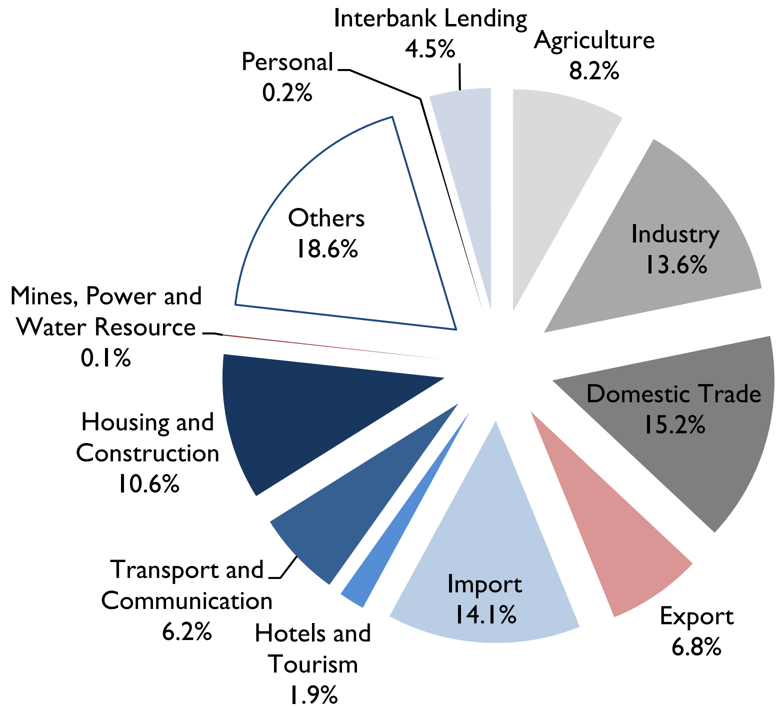
[10] Bekele, Kaleyesus. "The Thriving Banking Sector in Ethiopia," The Ethiopian Reporter

[11] Information in this paragraph comes from the World Investment News (WInNe.com): http://www.winne.com/ethiopia/cr04.html

[12] Ethiopian Business Development Services Network, http://www.bds-ethiopia.net/finance/loans-commercial.html

FIGURE 1. BANKING SECTOR OUTSTANDING LOANS, JUNE 2000



Source: USAID/Ethiopia

USAID's Response

The USAID/Ethiopia Mission conducted a workshop for all banks in 1999 to advertise its intention to provide a Micro- and Small Enterprise Development (MSED) loan portfolio guarantee (LPG) to a bank to support lending to the agriculture sector. It assessed each interested bank's performance and found that the BOA's portfolio and management were strong. The bank also had a long history, as it existed before the Derge and reestablished itself not long afterwards.[13]

USAID found that, while BOA had no previous experience in the agricultural sector, it wanted to extend lending to agricultural cooperative unions. Since this objective fit within USAID/Ethiopia's development objectives for increasing the production of staple foods, USAID agreed to support the bank's efforts with a MSED LPG with a porfolio ceiling amount of $325,000, to guarantee loans made to four agricultural cooperative unions (Lume Farmers Cooperative Union, Ada Liben Farmers Coopeative Union, Hettossa Farmers Cooperative Union, and Ambo Farmers Cooperative Union). Since that first MSED agreement, USAID has provided more than $3 million worth of guarantees to BOA to support 72 loans worth a combined total of more than $12 million to a variety of agricultural cooperative unions in Ethiopia.

[13] Three Business, Environment, Agriculture, and Trade (BEAT) officers interviewed in the USAID/Ethiopia Mission.

BOA quickly reached its maximum portfolio amount allowed under its MSED agreement, prompting USAID in July 2001 to double the maximum portfolio amount and extend the list of qualified borrowers to incorporate additional cooperatives.

Working in tandem with the MSED guarantees was the USAID-funded Agricultural Cooperatives in Ethiopia (ACE) Program, which ran from September 1999 to December 2005 with ACDI/VOCA as implementer. Designed to revive agricultural cooperatives as a form of support for Ethiopia's farmers, the ACE program referred cooperative unions to BOA to take advantage of the MSED guarantee.

By the end of 2003, BOA had reached its maximum portfolio amount under its amplified MSED guarantee. USAID discovered through conversations with the bank that BOA would be unable to continue supporting its cooperative borrowers without a guarantee because these borrowers could not meet the bank's collateral requirements. USAID's Development Credit Authority (DCA) program was gearing up in Ethiopia and USAID/Ethiopia expected to sign an LPG with BOA by the end of 2004. To bridge the gap between the MSED and DCA guarantees, USAID signed a second MSED LPG with BOA, with a maximum portfolio amount of $500,000, to tide the bank and its borrowers over until the DCA LPG kicked in.

In September 2004 USAID signed DCA guarantee agreements with BOA and Awash International Bank. The DCA guarantee opened the definition of qualified borrowers to include other types of agricultural entities, not just cooperative unions, and allowed both short-term as well as medium-term lending.

Since the expiration of the ACE program, the USAID/Ethiopia Mission has continued to refer private entrepreneurs from other agency projects to DCA-supported banks. Those programs include the following:

- Agribusiness and Trade Expansion Program 2004/2005: supported livestock programs and business development services (BDS). Implemented by FINTRAC, the project worked with agro-processors, large-scale farmers, and coffee cooperatives. It supported the leather, pulses, and horticulture industries and provided training and new technology to farmers.
- Dairy BDS project 2004/2005: implemented by Land O'Lakes
- African Growth and Opportunity Act Plus 2005: established to direct beneficiaries to DCA-supported banks. Implemented through a Leadership with Associates agreement with ACDI/VOCA, the project has been working with textile, leather, and handicrafts manufacturers.

Key characteristics of the two MSED guarantees and the DCA guarantee are provided in the tables below.

TABLE 2. SUMMARY OF ABYSSINIA BANK MSED GUARANTEE AGREEMENT 1 (DEC. 1999)

Authority	USAID MSED
Type	Loan Portfolio Guarantee
Guaranteed party	Bank of Abyssinia
Guarantee purpose	Encourage BOA to make Qualifying Loans to Qualifying Borrowers
Maximum portfolio amount	$650,000, raised to $1.3 million in July 2001 since the 4 cooperative unions had used all of the previous funds and paid back the loans
USAID guarantee percentage	50%
Guarantee ceiling	$325,000, raised to $650,000 in July 2001
Term of guarantee	Dec. 30, 1999 – Jan. 1, 2004, then extended Dec. 29, 2003 to Mar. 31, 2004
Origination fee	$1,625, raised to $3,250 in July 2001
Utilization fee	1.5% per annum of average outstanding principal amount guaranteed by USAID.
Maximum	$325,000 to any one borrower
Terms	• Tenure: one year or less • Interest rates and terms consistent with those prevailing in BOA for these types of loans
Qualifying Borrowers	• Lume Union, Ada Liben Union, Hettosa Union, Ambo Union • Amended in 2001: "Agricultural Cooperatives as approved by the Guaranteed Party that meet the purposes of this agreement"
Qualifying Projects	Project that further the Guarantee Purposes, that generate revenue sufficient to meet operating and debt service costs and that comply with applicable planning and environmental regulations • First year (pilot) for grain marketing • Possibilities thereafter: equipment, flour mills, construction of storage

TABLE 3. SUMMARY OF ABYSSINIA BANK MSED GUARANTEE AGREEMENT 2 (DEC. 2003)

Authority	USAID MSED
Type	Loan Portfolio Guarantee
Guaranteed party	Bank of Abyssinia
Guarantee purpose	Encourage BOA to make Qualifying Loans to Qualifying Borrowers for Qualifying Projects
Maximum portfolio amount	$500,000
USAID guarantee percentage	50%
Guarantee ceiling	$250,000
Term of guarantee	Dec. 29, 2003 –Mar. 31, 2004
Origination fee	$625
Utilization fee	1.5% per annum of average outstanding principal amount guaranteed by USAID.
Maximum	• $100,000 to any one borrower • $200,000 to coffee cooperatives
Terms	• Tenure: one year or less • Interest rates & terms consistent with those prevailing in BOA for these types of loans
Qualifying Borrowers	Agricultural cooperatives or coffee cooperatives
Qualifying Projects	Project that further the Guarantee Purposes, that generate revenue sufficient to meet operating and debt service costs and that comply with applicable planning and environmental regulations

TABLE 4. SUMMARY OF ABYSSINIA BANK DCA GUARANTEE AGREEMENT (SEPT. 28, 2004)

Authority	USAID DCA
Type	Loan Portfolio Guarantee
Guaranteed party	Bank of Abyssinia
Guarantee purpose	Increase access to short-term marketing credit and medium-term investment capital in the coffee, food grains, horticulture, and livestock/livestock products sectors.
Maximum portfolio amount	$9 million
Maximum cumulative disbursements	$9 million
USAID guarantee percentage	50%
Guarantee ceiling	$2.25 million
Term of guarantee	2004 –2014
Commitment fee	$22,500 (0.01 of Guarantee Ceiling)
Utilization fee	1.5% per annum of average outstanding principal amount guaranteed by USAID.
Maximum	• Short-term loans for marketing activities not to exceed 60% of Maximum Cumulative Disbursements ($5.4 million) • Loans to any one sector not to exceed 40% of Maximum Cumulative Disbursements ($3.6 million)
Terms	• Short-term loans for marketing activities: up to 1 year • Medium-term loans for capital investment: up to 5 years
Qualifying Borrowers	• Agricultural cooperatives • Livestock marketing groups • Private sector agro-processors • Private sector commercial horticulture producers
Qualifying Loan	• Activities: short-term marketing; medium-term capital investment • Sectors: Coffee; food grains (cereals, oilseeds, pulses); horticulture; livestock and livestock products (meat, dairy, hides/skins, leather/leather products) • Regions: Amhara, Oromia, Tigray, Southern Nations Nationalities and Peoples (SNNP); Somali (livestock/livestock products only) • Short-term marketing loans NOT to Ada, Ambo, Hetossa, or Lume cooperatives

PURPOSE OF THE EVALUATION

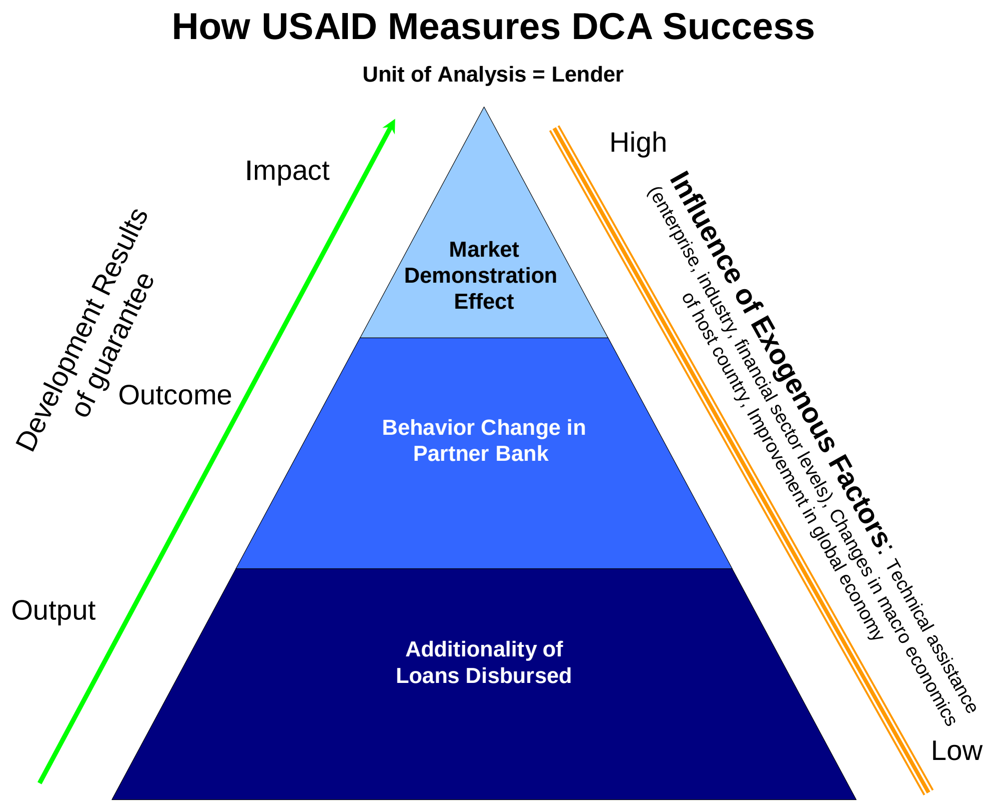
In November 2009, EGAT/DC, which manages the USAID guarantees under the DCA, contracted SEGURA/IP3 Partners LLC and Management Systems International to conduct an evaluation of the MSED and DCA guarantees provided to BOA. This evaluation is the seventh in a series of 20 evaluations[14] of DCA guarantees planned for the next 3 years to assess the outputs, outcomes, and impacts of these guarantees. Each individual evaluation addresses the performance of a particular guarantee or set of guarantees. An annual meta-evaluation will synthesize results from the individual evaluations to address broader questions about the performance of the DCA guarantee program. According to a generic evaluation framework which EGAT/DC officials and contractor staff developed in late 2008, each individual and meta-evaluation should provide EGAT/DC with information to

- Demonstrate and communicate to DCA stakeholders the contributions of DCA loan guarantees to the achievement of development results in countries in which guarantees are provided;
- Contribute to the dialogue about how to engage financial sector institutions as partners in development;
- Strengthen USAID's application of DCA as a tool for achieving development results; and
- Influence the design of new guarantees.

The scope of work for this evaluation asks the evaluators to examine the results of the DCA guarantee to BOA at three levels: output, outcome, and impact (see Figure 2 below). At the **output level**, USAID has asked evaluators to examine the additionality of the guaranteed loans in BOA's behavior; that is, what differentiates these loans and the way they are administered from business as usual at the bank. **Outcome-level** questions focus on determining the extent to which use of the guarantee has produced changes in BOA's non-guaranteed lending. **Impact-level** assessment seeks to determine whether changes in BOA's behavior have encouraged other, nonpartner banks to increase lending to the target sector. In addition, EGAT/DC asked the evaluation team to analyze the effects of exogenous factors (e.g., macroeconomic changes, government regulations) on changes observed at the three levels.

[14] The first six were in Ghana, Honduras, Indonesia, Russia, Philippines, and Rwanda.

FIGURE 2: DCA EVALUATION PYRAMID



Although the DCA LPG to BOA has not yet concluded, it is within 9.13 percentage points of its maximum portfolio amount and the bank has not put any new loans under the guarantee since the end of March 2009. Therefore, USAID's intervention (i.e., guaranteed loans) effectively ended a year ago, making the present time appropriate for assessing the guarantee's results.

Consistent with direction from EGAT/DC, the scope of the evaluation did not include assessment of USAID/Ethiopia's or EGAT/DC's management of the guarantee, nor did it examine the impact of loans made on borrowers or USAID Ethiopia's strategic objectives. EGAT/DC requested that the evaluation include findings and conclusions, but not recommendations or lessons learned.

EVALUATION METHODOLOGY

This evaluation used a mixed-methods approach, including statistical analysis of loan data, key informant interviews, and document review. The evaluator, Katharine Hoffman, worked with Project Manager, Thibaut Muzart, and Project Administrator, Anne-Sophie Samjee, to round out research after the field work and format the evaluation report.

The evaluation began in November 2009 with initial discussions with Mr. Kofi Owusu-Boakye and Mr. Joseph Obi of EGAT/DC to obtain a better understanding of the guarantees, their objectives and context, and key players with whom the evaluator should meet in Ethiopia. After reviewing background documents on the guarantees (see Annex IV) from EGAT/DC, the evaluator revised the generic evaluation framework for all of the MSED/DCA evaluations to fit the BOA guarantees' objectives and context, and developed indicators to measure the outputs, outcomes, and impacts of the guarantees. A copy of the tailored framework and indicators can be found in Annex II. Based upon the evaluation questions and indicators, Ms. Hoffman also developed interview guides to frame the planned, semi-structured interviews in Ethiopia. Those interview guides are in Annex VII. Prior to embarking for Ethiopia, Ms. Hoffman sent a request for loan data to BOA in order to allow the bank's staff time to begin preparing data needed to answer the evaluation questions.

Throughout the evaluation and in agreement with USAID/DC, Ms. Hoffman treated the three guarantees to BOA as one in terms of measuring outputs, outcomes, and impacts. The reasons behind this decision were (a) the guarantees focused on the same target sector and (b) based upon experience with other guarantees, banks and other knowledgeable interviewees tend not to distinguish between one guarantee and another if they focus on the same population and the same partner bank.

Ms. Hoffman began data collection in Addis Ababa on December 7, and made trips to agricultural cooperative unions in the Oromia, Amhara, and Southern Nationalities, Nations, and Peoples (SNNP) regions.[15] Ms. Hoffman returned to Addis Ababa on December 17th and conducted an interview with the NBE and follow-up meetings with BOA and USAID prior to departing Ethiopia the night of December 18th.

The Ethiopia phase of the evaluation included semi-structured interviews with 21 key informants, a group interview with 3 USAID/ Ethiopia officials involved with the BOA guarantees, a group interview with 5 BOA headquarters officers involved with the guarantees, a group interview with 3 leaders of a coffee cooperative, and site visits to 2 cooperative unions and 2 coffee processors. The evaluation team also collected additional documents from interviewees, as well as lending data from BOA. The evaluator interviewed the managers of two BOA branches—one onsite in Hawassa and the other in the bank's headquarters office in Addis Ababa. These managers were in charge of the full suite of USAID-guaranteed agricultural loans through the bank.

Back in the United States, the team collected additional data as needed using internet searches. Ms. Hoffman used a combination of comparative analysis, statistical analysis, and content pattern analysis to draw findings from all of the collected data, from which she drew conclusions. In cases in which she converted loan data from Ethiopian birr to U.S. dollars or vice versa, she used Oanda's historical foreign exchange calculator (http://www.oanda.com/convert/classic) to make conversions appropriate to the original time periods of the data.

[15] The final Ethiopia trip schedule is in Annex V. A full list of interviewees is in Annex VI.

Data Limitations

Even with advance warning, the BOA staff was not able to assemble most of the data requested on nonguaranteed lending to the agriculture sector. Therefore, many statistical comparisons to analyze the guarantees' outputs were not possible. Data from BOA's annual reports (where available) was used to fill the gap as much as possible.

As explained under Outcome findings, although lending data going back to June 2000 from the NBE was made available through USAID/Ethiopia, these data conflict with data from BOA's annual reports and are most likely not inflation-adjusted. Therefore, the reader should use these data as reflections of lending patterns rather than absolute numbers.

Although the evaluator, with USAID/Ethiopia's assistance, attempted to conduct group interviews or surveys with larger numbers of USAID-guaranteed and nonguaranteed borrowers, distances the interviewees or the evaluator would have to travel and their busy work schedules precluded such activities. Therefore, she visited as many BOA borrowers as possible during her time in Ethiopia.

The rest of this report proceeds as follows: the next chapter provides background information on the history of BOA, followed by a chapter on the Ethiopian Government's recent leasing of farmland to foreign governments and companies. The subsequent chapter presents findings and conclusions to answer each of the evaluation questions from the evaluation framework, organized into separate sub-chapters for Outputs, Outcomes, and Impacts. Indicator data are woven through the report's findings as appropriate, and quantitative data are summarized in Annex III. The report finishes with a summary of conclusions.

BACKGROUND ON BANK OF ABYSSINIA

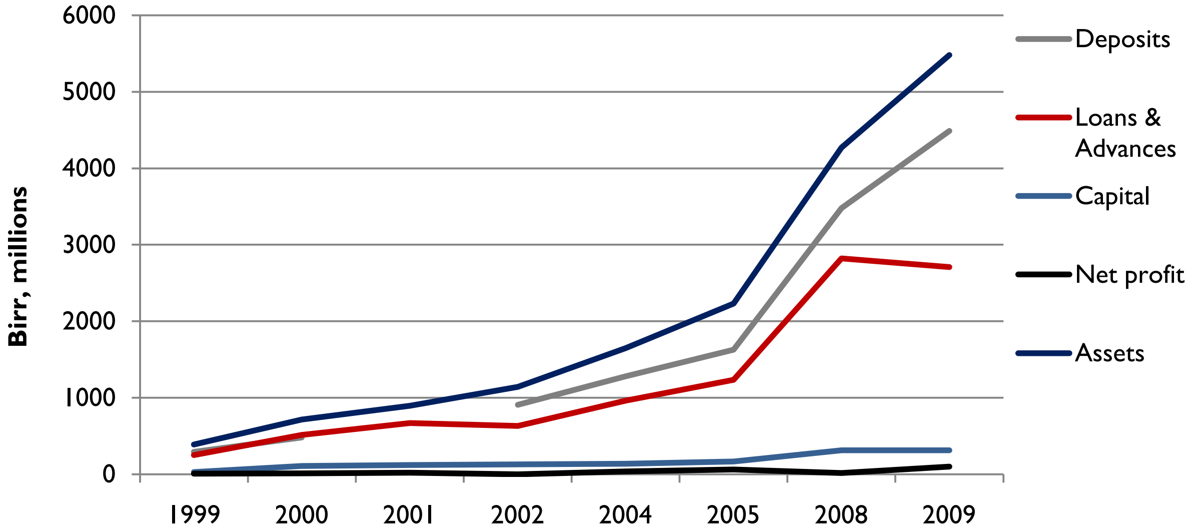
BOA is a private, commercial bank established on February 18, 1996. It began operations in August of that year and by October 30, 1999, the bank claimed total assets of $73.4 million and total capital of $96 million. By the end of the bank's fiscal year in June 1999, its net income after taxes stood at $800,000. At that time, it had 171 employees and 7 offices, 5 of which were in Addis Ababa. By January 2000, BOA had the largest capital base of any Ethiopian private bank, at $30.6 million.[16]

According to a Wharton School report[17], as of 2006, BOA shared second place (behind Dashen Bank) with Awash International Bank among the private sector banks with the highest asset value. BOA's share of total bank assets in Ethiopia grew from one percent in 1998 to five percent in 2006. As shown in the figure below, BOA has performed well financially over the last 10 years.

[16] USAID Action Packages and memoranda related to the MSED guarantees and first DCA guarantee with Bank of Abyssinia.

[17] Ncube, Bekezela. "Ethiopia," Wharton School, University of Pennsylvania.

FIGURE 3. BOA FINANCIAL INDICATORS



Source: BOA Annual Reports and Audited Financial Statements for 1999-2000, 2001-2002, 2004-2005, and 2008-2009. In each case, the fiscal year covered begins on July 1 and ends on June 30.
"Capital" refers to "paid-up capital."

FOREIGN LAND LEASING

The Government of Ethiopia has recently begun providing long-term land leases to foreign governments and companies interested in shoring up their own food supplies.[18] This phenomenon may reduce demand for credit as smallholder farmers are pushed into working the fields for foreign companies, rather than growing their own crops. However, the evaluator found conflicting information on the extent to which this new practice is impacting or will impact agricultural lending, either positively or negatively.

World food prices have been rising since 2006 and took a sharp upward turn in 2008, prompting net food importing countries, such as Saudi Arabia, to seek means for food security.[19] One of those means has been leasing land in countries such as Ethiopia, Mali, Senegal, and Sudan, which have plenty of arable, yet underdeveloped, land. Experts have estimated that three quarters of Ethiopia's arable land is not cultivated and the Ethiopian government, according to the Director of the Agriculture Investment Agency, sees providing long-term land leases to foreign countries and

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[18] McCrummen, Stephanie. "The Ultimate Crop Rotation," *The Washington Post*, November 23, 2009.
Rice, Andrew, "Is there such a thing as agro-imperialism?" *The New York Times Magazine*, November 16, 2009.
[19] Andrew Rice, Nov. 2009

companies as a way to attract land and infrastructure development which the Ethiopian Government cannot afford, new technology, job creation, and foreign currency.[20]

Therefore, the Ethiopian Government has actively courted foreign investors with long leases on large tracks of land and tax holidays.[21] According to Farmlandgrab.org, 9,200 investors have received licenses to implement commercial farms since 1996, of which 14 percent are foreign.

According to the NBE's (central bank) Deputy Director for Economic Research and Monetary Policy, land leased to foreign investors is empty and in remote areas that lack infrastructure. "They are turning infertile land into fertile land." He added that the government is encouraging these investors to use labor-intensive methods to create as many jobs as possible. The government is *not*, he said, encouraging farmers to work for these investors; rather, it is up to each individual farmer to decide. However, this informal policy seems to contradict the argument that foreign investors will bring new farming technology. According to a representative of an Indian investor, the introduction of large machinery is doubling the output of traditional farms.

The Deputy Director interviewed at the NBE added that foreign agriculture investors are required to repatriate the foreign exchange they earn from exporting to a local bank. The team has not found any information either confirming or denying his statement.

During the field work, none of the interviewees raised the foreign leases as factors in domestic agriculture development, nor to the financial need of farmers or cooperatives. Finally, in the wrap-up meeting with BOA's Vice President of Operations, the issue was raised, and he expressed a wait-and-see attitude. The country needs agrarian reform and commercial farming, he said, but the question remains how to do it. Ethiopians do not have sufficient capital and banks do not have the capacity to finance large, commercial farms. If there are no local investors, then foreign ones must be allowed in. He confirmed that Ethiopia has large areas of undeveloped, arable land and foreign investors might bring in experts who can develop it. .

With all of the conflicting information and opinions, it is difficult to say to what extent these developments are or may impact the agriculture finance market, but they are included here as background information that could be affecting the market in some way.

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20 Stephanie McCrummen, Nov. 2009; Peter Heinlein, Feb. 2010; Andrew Rice, Nov. 2009; Barry Malone, Nov. 2009
21 Stephanie McCrummen, Nov. 2009; and Barry Malone, Nov. 2009

CONCLUSIONS AND FINDINGS

This section presents findings and conclusions for 6 evaluation questions and 13 sub-questions. It is organized by result level—outputs (four sub-questions), outcomes (two sub-questions), and impacts (five sub-questions). The remaining two sub-questions in the evaluation framework address exogenous factors influencing observed results and are therefore cross-cutting. Findings and conclusions for these questions are embedded within the findings and conclusions for outputs, outcomes, and impacts, as appropriate. Each subsection below addresses a result level and begins with a summary of the evaluation questions at that level. The subsections proceed to address each question separately or in closely related pairs, stating first the conclusions and then presenting the findings that support the conclusions.

Outputs

At the output level, the evaluation examined whether and to what extent BOA used the MSED and DCA guarantees to increase access to finance for agricultural cooperatives, producers, and agro-processors, above and beyond what the bank was doing without the guarantees. The evaluation framework includes two questions, each divided into two sub-questions, at the output level, as follows:

- Question 1a: Why did Bank of Abyssinia enter into the guarantees?
- Question 1b: How did Bank of Abyssinia implement its loan guarantee programs that was different from implementation of its existing portfolio)? And why?
- Question 2a: What was the additionality of the guarantees?
- Question 2.b: What was the extent to which the MSED and DCA guarantees influenced changes in BOA's portfolio characteristics?

The tables below display the status of BOA's use of the MSED and DCA guarantees from the inception of the first MSED guarantee in December 1999 through the present. As shown, utilization was high throughout the bank's experience with USAID-guaranteed loans to the agriculture sector.

TABLE 5: SUMMARY OF MSED 1 STATISTICS

From USAID's Credit Management System (CMS)	
Date of data collection	January 29, 2010
Cumulative utilization amount	$2,705,538
Cumulative utilization percent	100%
Number of loans	27
Average loan size	$100,205.11
Average loan tenure	4.71 months
Number of claims	0
Value of claims	0

Basic Utilization Data for BOA's first MSED Guarantee (Start Date 12/30/99)
(from the CMS)*

Date of Posted New Activity Quarter ending…	Cumulative Number of Loans	Cumulative Utilization	Cumulative Utilization %
06/30/2000	4	$509,592	39.2%
03/31/2001	8	$1,106,964	85.15%
06/30/2002	9	$1,157,782	89.06%
03/31/2003	13	$1,668,446	100%
12/31/2003	16	$2,178,887	100%
03/31/2004	27	$2,705,538	100%

**Although these figures suggest that BOA exceeded its maximum portfolio amount, they reflect the revolving nature of the loans. That is, after each season's loans had been paid off, they were used again for the following season. Therefore, the total outstanding loan amount at any one time under the MSED 1 portfolio never exceeded the maximum portfolio amount and was as follows: Jan.-Sept. 2000: $261,377; Jan.-Sept. 2001: $603,136; 2002: $435,000; Jan.-Sept. 2003: $510,664; Nov. 2003-Mar. 2004: $1,288,298.*

TABLE 6: SUMMARY OF MSED 2 STATISTICS

From CMS	
Date of data collection	January 29, 2010
Cumulative utilization amount	$383,546
Cumulative utilization percent	76.71%
Number of loans	6
Average loan size	$63,998.17
Average loan tenure	1.37 months
Number of claims	0
Value of claims	0

Basic Utilization Data for BOA's second MSED Guarantee (Start Date 12/29/03)
(from the CMS)

Date of Posted New Activity Quarter ending…	Cumulative Number of Loans	Cumulative Utilization	Cumulative Utilization %
03/31/2004	6	$383,546	76.71%

TABLE 7: SUMMARY OF DCA STATISTICS

From CMS	
Date of data collection	November 27, 2009
Cumulative utilization amount	$8,178,511
Cumulative utilization percent	90.87%
Number of loans	39
Average loan size	$209,705.41
Average loan tenure	15.35 months
Number of claims	0
Value of claims	0

Basic Utilization Data for BOA's first DCA Guarantee (Start Date 9/28/04)
(from the CMS)

Date of Posted New Activity—Quarter ending…	Cumulative Number of Loans	Cumulative Utilization	Cumulative Utilization %
03/31/2005	10	$2,228,637	24.76%
09/30/2005	13	$3,474,312	38.6%
03/31/2006	18	$4,338,268	48.2%
09/30/2006	23	$4,689,762	52.11%
03/31/2007	30	$5,650,186	62.78%
09/30/2007	39	$7,237,705	80.42%
03/31/2009	39	$8,178,511	90.87%

Conclusions and Findings for Question 1.a

Why did Bank of Abyssinia enter into the guarantees?

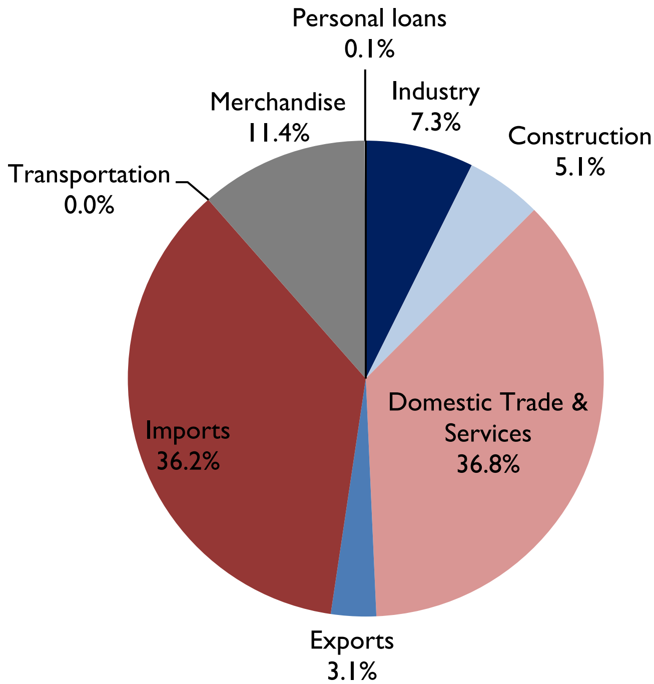
Conclusions

BOA wanted to lend to the agriculture sector because it plays a major role in the country and economy and because export sub-sectors generate desired foreign currency. However, the bank had no previous experience lending to the sector and perceived it as risky since potential borrowers were not able to offer acceptable collateral. The guarantees provided the bank the comfort it needed to engage with the sector.

Findings

Prior to signing its first LPG agreement with USAID, the sectors to which BOA lent were as depicted in the figure below.

FIGURE 4. BOA LOANS & ADVANCES FY 1998-1999



Source: BOA Annual Report for fiscal year July 1999 to June 30, 2000, which includes the previous year's data.

As shown, the bank claimed no activity whatsoever in the agriculture sector. The bank expressed interest in doing so, however, which prompted USAID to support the effort with an LPG.[22] BOA's Annual Report for its fiscal year ending June 2000 notes that with USAID's help, the bank had begun agricultural lending in central Ethiopia, which "is expected to expand progressively to other areas of the country over the coming years."[23] With USAID's guarantee, the Bank committed 5 million birr to the agriculture sector for the fiscal year July 1, 2000 to June 30, 2001.

The Economic Justification for the first DCA guarantee, included as an attachment to EGAT/DC's Action Package, states that while BOA was enthusiastic about expanding its agricultural lending portfolio, it needed the USAID guarantee to do so. This need, USAID found, stemmed from the fact that agricultural borrowers were chronically short of collateral, due to the fact that Ethiopia does not permit private land ownership.[24]

The evaluator's interviews with key bank officers confirmed this finding. According to the Vice President of Operations for BOA, Mr. Anteneh Assefa, the bank was interested in lending to the agriculture sector because it is "the backbone of the country," a vital part of Ethiopia's still-nascent open economy. In addition to food security for the nation's people, the agriculture sector has the

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22 USAID Credit Risk Analysis for first MSED guarantee.

23 BOA Annual Report, November 2000, p. 5.

24 Ethiopia Summary Trip Report, Aug. 20-27, 2006.

potential to generate jobs and income, as well as foreign currency. As of 2005, the sector employed 85 percent of the labor force, and it contributed 43.8 percent of Ethiopia's estimated 2009 GDP, just ahead of the service sector (43 percent).[25]

However, despite its importance, the agriculture sector was a risky investment because borrowers lacked collateral. When the USAID MSED program came along, BOA was an enthusiastic first participant, according to USAID, ACDI/VOCA, and BOA interviewees. As shown in Table 5 above, the bank used 100 percent of its maximum portfolio amount under the first MSED guarantee, prompting USAID to offer and BOA to accept a new guarantee. The guarantees, said Mr. Assefa and the BOA branch manager in Hawassa, gave the bank the confidence to begin lending to a risky sector.

Conclusions and Findings for Question 1.b

How did Bank of Abyssinia implement its loan guarantee programs that was different from implementation of its existing portfolio? And why?

<u>Conclusions</u>

BOA used the LPGs to subsidize collateral requirements for guaranteed borrowers.

BOA adopted a fairly open approach to marketing the guarantee program to potential borrowers, consistent with USAID/Ethiopia's and ACDI/VOCA's active marketing efforts. The active approach is also consistent with the Bank's and USAID's desire to support agricultural cooperatives and build their business capacity and therefore seems appropriate. To counteract potential moral hazard, the bank devoted more management resources to the USAID-guaranteed portfolio than it normally does to its other loans. BOA's success in securing a high repayment rate among its borrowers under the USAID guarantees likely results both from its own management approach as well as ACDI/VOCA's efforts to build the capacity of borrowers.

<u>Findings</u>

USAID's August 2006 Trip Report[26] found that BOA used the LPGs to subsidize collateral requirements for agricultural borrowers, which it does not do for the rest of its borrowers. BOA counted the USAID guarantees as fulfillment of 50 percent of the standard collateral requirement, thereby enabling agricultural cooperatives short of reasonably liquid collateral to obtain credit.[27]

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[25] CIA World Factbook: Ethiopia, last updated January 15, 2010. https://www.cia.gov/library/publications/the-world-factbook/geos/et.html

[26] Ibid.

[27] The four borrowers under the guarantees with whom we spoke, as well as the ACDI/VOCA representative and the BOA Hawassa Branch Manager, said that borrowers were required to provide the 50% collateral which USAID did not cover. The Vice President/Operations of BOA indicated that the bank assumed the remaining 50% risk.

Unlike most other USAID LPGs, the Ethiopia Mission chose to advertise the guarantees to both partner banks *and* potential borrowers in order to encourage use. Since collateral requirements are unattainable for most agricultural cooperatives in Ethiopia, due to lack of land ownership, both the Mission and the Bank saw the guarantees as vehicles to obtain credit for these cooperatives. BOA emphasized, however, that the fact that there is a guarantee available has not reduced the financial scrutiny given to any potential borrower, thereby reducing potential moral hazard. Field interviews confirmed this information.

According to BOA's Vice President of Operations, the bank created awareness about the availability of the guaranteed loan facility in two ways:

1. Identified potential loan recipients, met with them, and told them about the bank's products.
2. Sponsored trade fairs, exhibitions and the like and marketed through them.

Regarding the first method, BOA officers visited Hawassa and Dila and organized meetings with both existing and prospective customers to market the guarantee.

Interested participants subsequently submitted applications for a USAID-guaranteed loan to the branch managers. Those who already had collateral were told they were not eligible for the USAID guarantee, while the branches asked the rest to prepare a business plan. Since most applicants were unfamiliar with such a process, the bank facilitated the preparation of their plans, BOA's Vice President explained. Branch managers went to the potential clients' businesses and assessed their creditworthiness. After consulting the national credit reporting system, the manager recommended creditworthy applicants with good business plans to the headquarters-based credit committee, which made a final decision on whether or not to lend. Most of the recipients of the guaranteed loans were new to the bank, the vice president said, because existing ones had collateral for the most part.

Apart from the extra effort the bank's employees put into assessing applicants' ability to pay, these procedures are consistent with what the bank normally does, according to its vice president. Through time and with the help of ACDI/VOCA, the vice president explained, applicants' business capacity increased and they submitted their own, acceptable business plans.

The branch manager in Hawassa with whom the evaluator met described a slightly different marketing process. Rather than advertising the guarantee facility openly, he said, the branch asked good, existing clients short of collateral if they would be interested in a USAID-guaranteed loan. However, this branch manager only joined BOA 1 year ago, at which point the bank had reached 90.87 percent of its maximum portfolio amount and was no longer offering guaranteed loans. The branch manager did say that he is using the process he described to market BOA's newest DCA guarantees.

BOA placed increased focus on managing USAID-guaranteed loans. BOA's vice president explained the emphasis by saying that if these loans were not well administered, "we knew the loss would be not just to the bank, but also to the country." Therefore, the bank put a head officer in charge of monitoring the guaranteed loans and channeled most guaranteed loans to two branches to facilitate management and monitoring. The Hawassa branch took charge of the Sidama region, while another covered the rest of the country.

Consequently, the vice president said, the recovery rate was higher for the DCA guaranteed loans than for the bank's general portfolio. According to USAID's Credit Management System (CMS) database, as of the period ending December 2009, BOA had submitted two claims for unpaid amounts totaling $254,862, which amounts to 2 percent of the entirety of the bank's USAID-guaranteed portfolio for all three guarantees. By contrast, the percent of the bank's outstanding loans and advances "in the legal department" varied between 3 and 19 percent for the years July 1, 1999 to June 30, 2009.[28] Obviously, and contrary to its usual practices, the bank did not provision for the USAID-guaranteed loans. Interestingly, both of the two claims which BOA submitted were for borrowers who received loans under the DCA guarantee and therefore did not benefit from the ACE project's capacity building.

The Bank also assigned a headquarters officer to provide loan data to USAID and administer the guaranteed loans. Once the bank reached its ceiling, this individual was reassigned within the bank.

Influence of Others

BOA was not the only stakeholder who marketed the guarantee facility. Both the USAID Mission in Ethiopia and its contractor, ACDI/VOCA, played roles. According to the USAID officers with whom the evaluator met, the Mission held workshops for beneficiaries and distributed brochures and leaflets about the guarantee program. It also worked with sector associations and chambers of commerce to introduce the program to their members.

ACDI/VOCA, meanwhile, was implementing ACE, which ran from September 1999 to December 31, 2005. The evaluator spoke with the ACDI/VOCA representative and former Marketing and Agribusiness Advisor (and later project manager) of the ACE program. He said that as soon as his team learned about the guarantee program, it immediately informed the cooperatives about the guarantee and gave them USAID-produced brochures about the program. The ACE team worked with the cooperative unions to help them understand the requirements and obligations inherent with bank loans and helped those who were eligible to prepare business plans to submit to the bank.

Of the total 41 borrowers who received USAID-guaranteed agriculture loans from BOA, ACDI/VOCA linked 20 to the bank. Of the 23 borrowers who obtained their first USAID-guaranteed loan during the period of the ACE project, ACDI/VOCA referred 87 percent and all but one of the borrowers who obtained a loan under either of the MSED guarantees. Of the 19 guaranteed loan recipients who received more than one guaranteed loan, 15 had received their first loan with ACDI/VOCA's assistance. None of the ACDI/VOCA referrals defaulted.

[28] BOA annual reports

Conclusions and Findings for Questions 2.a and 2.b

Question 2.a: What was the additionality of the guarantee?
Question 2.b: What was the extent to which the DCA guarantee influenced changes in partner bank portfolio characteristics?

To answer these questions, the evaluator analyzed BOA's agricultural lending data according to six characteristics: loan value, loan size, loan tenor, rules for collateral requirements, interest rates, and arrears.

Conclusions

Between 2000 and 2008, the USAID guarantees were responsible for increasing the bank's lending to the agriculture sector from 0 to an average of 2.3 percent of its total value of loans disbursed during the period.

The fact that the coffee sector received a far higher share of the DCA guarantee pool than was allowed according to the guarantee agreement likely reflects BOA's desire to receive foreign currency through supporting an active export commodity.

Since BOA was unwilling to lend to potential borrowers with insufficient or no collateral without the USAID guarantees, those guarantees enabled these borrowers to obtain loans larger than they would otherwise have received, if they could have qualified for any loan at all. The USAID guarantees allowed BOA to reduce collateral requirements by at least 50 percent for guaranteed borrowers.

BOA clearly prefers to grant loans with tenors of 3 years or less, which is consistent with its guaranteed loan portfolio. While some cooperatives continue to need short-term loans, others are growing to the point of needing investment loans.

USAID-guaranteed borrowers received preferential interest rates compared to BOA's standard range, but these rates have been average compared to other banks' standard rates because interest rates in general do not vary much from bank to bank. The reason for this conformity is that Ethiopian banks look to the CBE for guidance on setting interest rates and CBE bases its rates on the NBE's minimum deposit interest rate.

Poor repayment history has biased Ethiopian banks against lending to the agriculture sector. USAID's guarantees gave BOA the comfort it needed to engage the sector. In fact, through careful management, BOA's USAID-guaranteed portfolio has performed better than its overall portfolio, in terms of arrears.

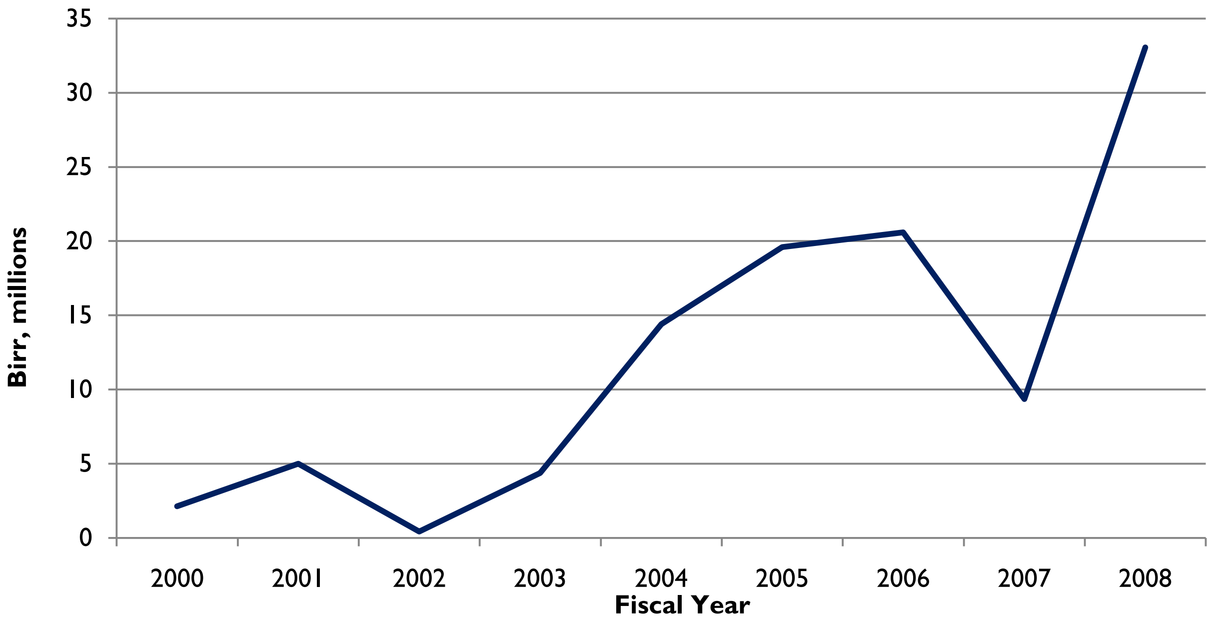
<u>Findings</u>

Value of Loans to the Agriculture Sector

As mentioned under the findings for Question 1.a, BOA did not lend to the agriculture sector at all until after receiving the first MSED guarantee. Both the bank's Vice President of Operations and the Hawassa Branch Manager said they would not have lent to the beneficiaries of the guarantees without the guarantees in place, because BOA was not ready to risk lending to the agriculture sector and the prospective borrowers did not have sufficient collateral.

The figure below displays the bank's agricultural lending under both the MSED and the DCA guarantees.

FIGURE 5. BOA'S USAID-GUARANTEED LENDING TO AGRICULTURE

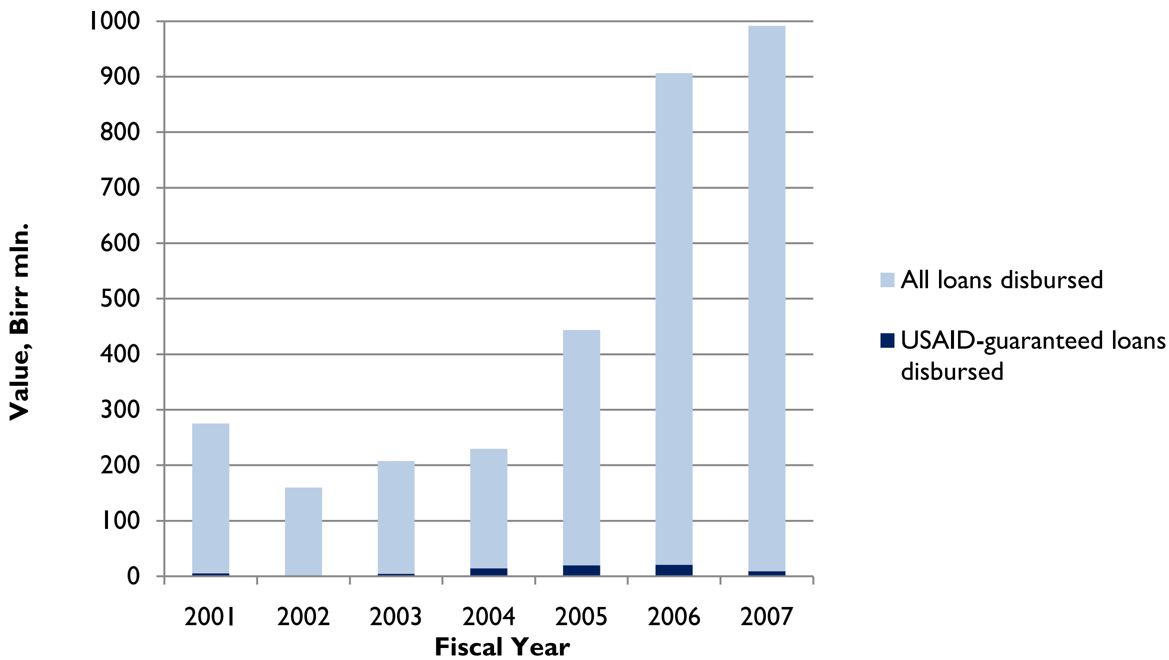


Source: CMS

As shown, the value of guaranteed loans disbursed increased dramatically when the DCA guarantee came into effect in 2004 with nearly four times the portfolio ceiling amount of the MSED guarantees. The 55 percent drop in cumulative guaranteed loan value between 2006 and 2007 may be related to the fact that 80 percent of the 10 2007 loans were made to new clients. By contrast, 33 percent of the 9 2006 loans went to new clients; the others had obtained previous guaranteed loans from BOA with ACDI/VOCA's assistance. The average loan size was also more than 1 million birr smaller in 2007 than in 2006. The 2008 average loan size was more than 1 million birr higher than the 2006 size, pushing the total value of guaranteed lending that year beyond what was seen in previous years of the guarantees. Loan sizes are discussed in more detail below.

The value of USAID-guaranteed loans disbursed during 2001 to 2007 represented between 0.3 and 6.7 percent of the total value of loans which BOA disbursed during this period, as shown below.

FIGURE 6. BOA LOANS DISBURSED, 2001-2007



Sources: CMS and USAID/Ethiopia

The table below displays the value of guaranteed loans made to each of the targeted sectors specified in the Guarantee Agreements for the MSED guarantees.

TABLE 8: VALUE OF BOA MSED LENDING, BY SECTOR

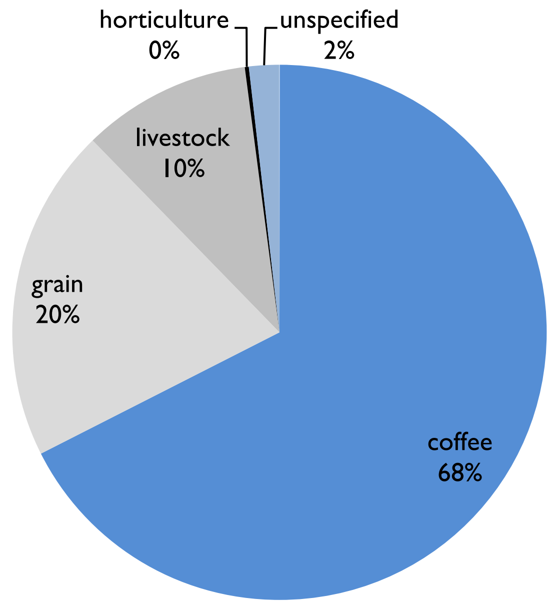
Target Sector/Region	Value of Total Lending	% of Guaranteed Portfolio
Lume Union, Ada Liben Union, Hetossa Union, Ambo Union	$1,404,632	45%
Coffee cooperatives	$709,409	23%
Other agricultural cooperatives	$984,241	32%
Total	$3,098,282	100%

Source: CMS

Not surprisingly, the original four agricultural cooperatives targeted for the MSED guarantees absorbed most of the value of the MSED loan portfolios. The first MSED guarantee was not opened to other cooperatives beyond the original four until 2 years into the guarantee.

According to the terms of the DCA LPG, lending to any one sector was not supposed to exceed 40 percent of the maximum portfolio amount, or $3.6 million. As shown in the figure below, the coffee sector exceeded its share by $2.8 million.

FIGURE 7. DCA GUARANTEED LENDING, BY SECTOR



Source: CMS

Coffee has proven to be a valuable export commodity. As discussed above, one of the reasons BOA was interested in lending to the agriculture sector was because of the potential to support exports and, therefore, receive foreign currency. The branch manager in Hawassa emphasized the importance of the coffee industry, in particular, stating that more than 60 percent of Ethiopia's exports are from coffee. The Hawassa branch, he said, has been lending to the coffee industry since it began lending at all, 4 years ago.

The Vice President of Operations for BOA told the evaluator that guaranteed loans were distributed on a first-come, first-served basis. As shown in the table below, most of the USAID-guaranteed loan money went to the Southern Nations, Nationalities and Peoples (SNNP) region. BOA's vice president told the evaluator that most of the applicants for guaranteed loans came from the south, particularly the Sidama area of SNNP. This area is especially known for its coffee production.

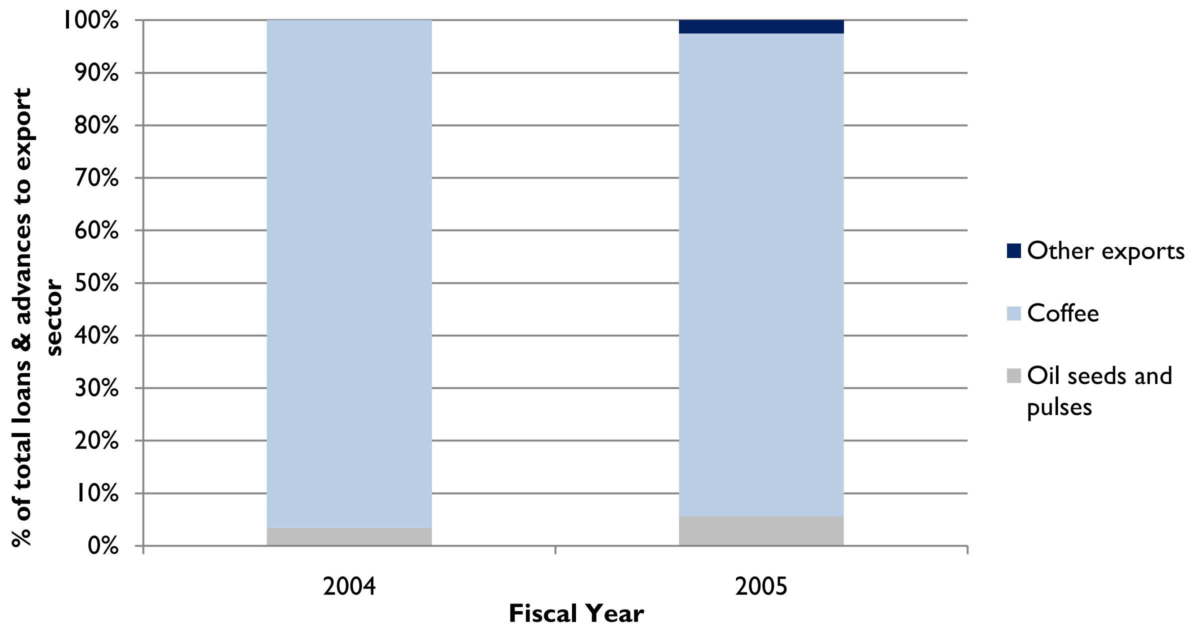
TABLE 9: VALUE OF BOA DCA LENDING, BY SECTOR AND REGION (BIRR, MLNS.)

	Coffee	Food Grains	Horticulture	Livestock and Livestock Products	TOTAL by Region
Amhara	0	4.93	0	3.35	**8.27**
Oromia	5.17	5.13	0.20	5.15	**15.65**
SNNP	58.34	11.50	0	0	**69.84**
Total by Sector	**63.51**	**21.56**	**0.20**	**8.50**	**93.77**

Source: CMS

This lending pattern is consistent with BOA's lending behavior to the export sector in general during 2004 and 2005 (the only years for which disaggregated data were available), as shown in the figure below.

FIGURE 8. BOA LOANS & ADVANCES TO THE EXPORT SECTOR, 2004-2005



Source: BOA Annual Reports for fiscal years July 1 to June 30, 2004 and 2005

Large international retailers have been interested in Ethiopian coffee for at least 7 years, pushing up the price of coffee exports. Starbucks has reportedly increased the amount of Ethiopian coffee it purchased by nearly 400 percent between 2002 and 2006.[29] One of the guarantee's beneficiaries, Sidama Farmers Cooperative Union (FCU), has exported to Starbucks[30]. Green Mountain Coffee has also been purchasing Ethiopian coffee, from the Oromia FCU, which won third place in the Specialty Coffee Association of America's 2003 cupping trials.[31] This coffee union received DCA-guaranteed loans from BOA in 2003 and 2004.[32]

BOA's nonguaranteed lending has also focused on SNNP during the last few years, though not quite to the extent of its guaranteed lending, as shown in the figure below.

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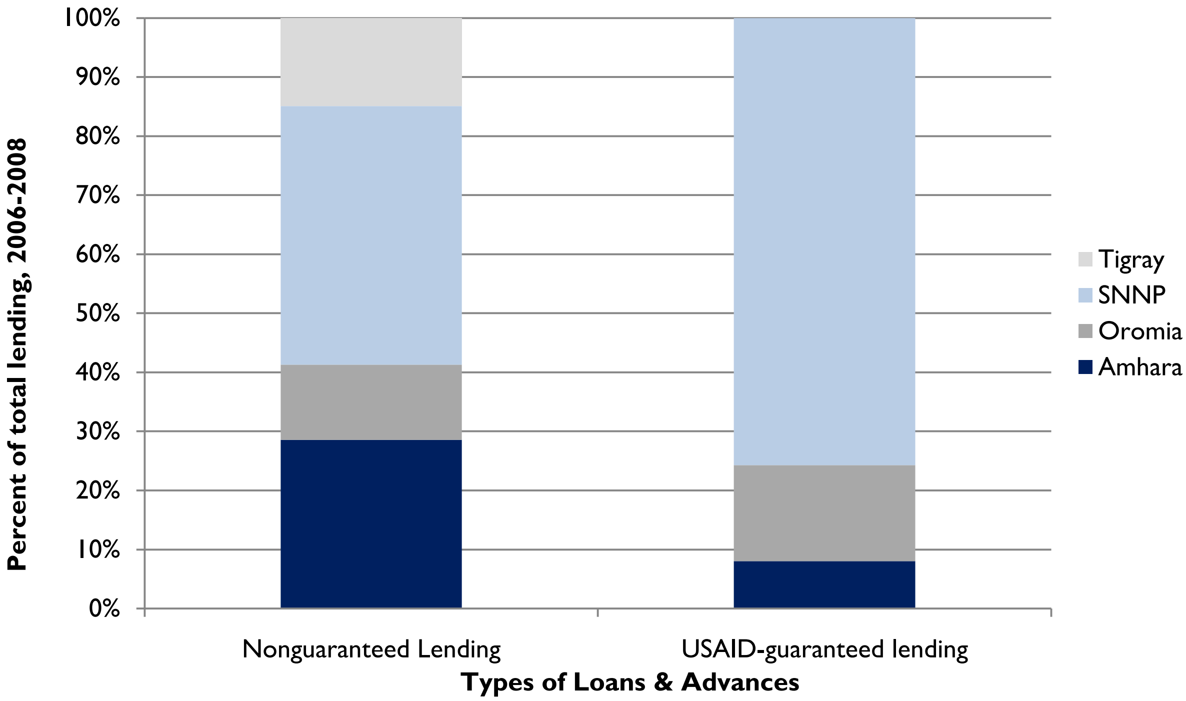
29 http://www.starbucks.com/aboutus/pressdesc.asp?id=713

30 http://www.acdivoca.org/852571DC00681414/Lookup/January2006-Web/$file/January2006-Web.html

31 http://www.greenmountaincoffee.com/coffee/ftoethiopiany?ck=1&ProductType=Coffee&SellGroupID=FTOEthiopianY(B2C)

32 Oromia FCU was established in 1999. http://www.oromiacoffeeunion.org/aboutus.html

FIGURE 9. BOA LENDING BY REGION, 2006-2008



Source: BOA data obtained from the Credit Management Department

Loan Size

As shown in the table below, the average loan size under the DCA guarantee was 157 percent larger than the average size under the MSED guarantee.

TABLE 10: AVERAGE GUARANTEED LOAN SIZES

Guarantee Type	Average Loan Size
MSED	$93,887
DCA	$241,303
MSED and DCA	$173,738

Source: CMS

While the DCA guarantee agreement did not contain any specific requirements governing loan size, the MSED guarantees did, consistent with the program's focus on micro- and small enterprises. The DCA guarantee was open to other business sizes and, therefore, loan sizes.

Table 11 below shows the frequency distribution of all of the MSED and DCA loan portfolios, by size. As displayed, most (56 percent) of the loans were between $50,000 and $200,000.

TABLE 11: FREQUENCY OF GUARANTEED LOAN SIZES

Loan Size	Frequency
Less than $50,000	13
$50,000-$100,000	20
$100,000-$200,000	20
$200,000-$500,000	11
More than $500,000	8

Source: CMS

Examined by guarantee type, the CMS data show that 63 percent of the MSED loans were worth less than $100,000 each, whereas 69 percent of the DCA loans were worth $100,000 or more.

TABLE 12: COMPARISON OF MSED AND DCA LOAN SIZES

Loan Size	Frequency of MSED	Frequency of DCA
Less than $50,000	6	6
$50,000-$100,000	14	6
$100,000-$200,000	9	11
$200,000-$500,000	3	8
More than $500,000	0	8

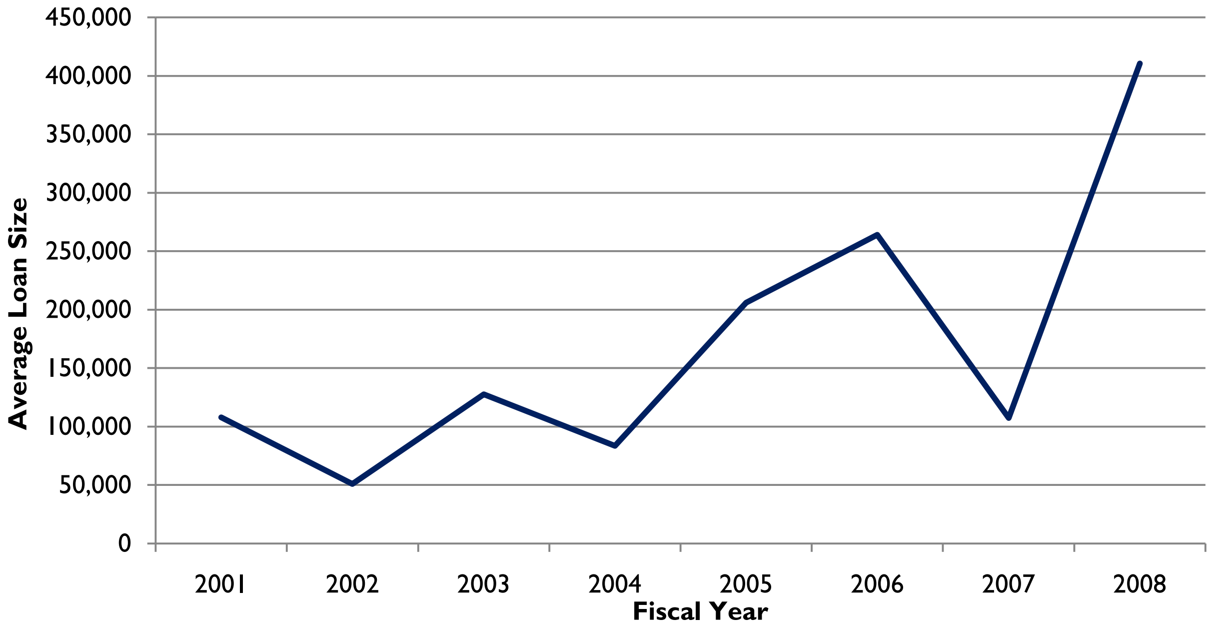
Source: CMS

The first MSED LPG (December 1999-March 2004) limited the amount lent to any one borrower to $325,000 (the initial portfolio ceiling amount). Two borrowers exceeded that amount: Lume FCU ($565,639) and Erer FCU ($349,109), both of which are grain unions. The evaluator asked USAID about this fact and was told that the agency decided to overlook this particular limit to avoid denying funds to cooperative unions that needed them to keep their members' farms alive.

The second MSED LPG (December 2003-March 2004) limited any one borrower's loan(s) to $100,000, with a $200,000 limit for coffee cooperatives. None of the five borrowers under this guarantee exceeded the maximum.

As shown in Figure 10 below, the average loan size mirrors the trend of the total USAID-guaranteed loan value over time, with values low during the MSED years, steadily increasing when the DCA guarantee took effect, taking a dive in 2007, and shooting up in 2008.

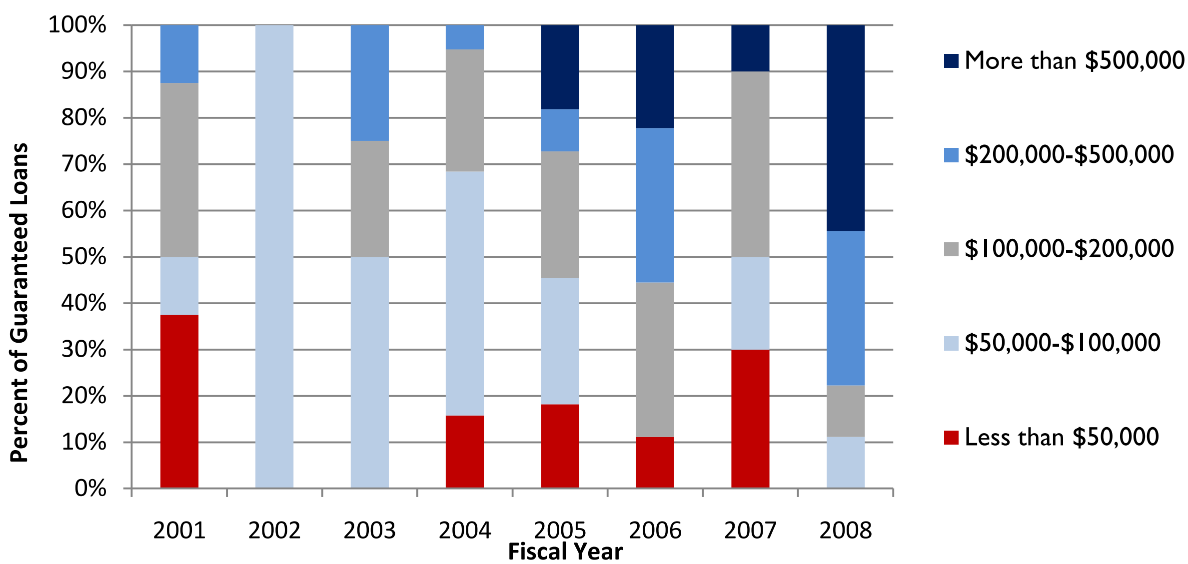
FIGURE 10. AVERAGE GUARANTEED LOAN SIZE, BY YEAR



Source: CMS

The reason for the dramatic shift in average loan size is the fact that the 2007 portfolio included a lower percentage of high-value loans, as shown below.

FIGURE 11. FREQUENCY DISTRIBUTION OF GUARANTEED LOAN SIZES



Source: CMS

Of the 20 recipients of multiple USAID-guaranteed loans, 60 percent received larger loans over time, while the remainder received nearly comparable or smaller loans after their first loan.

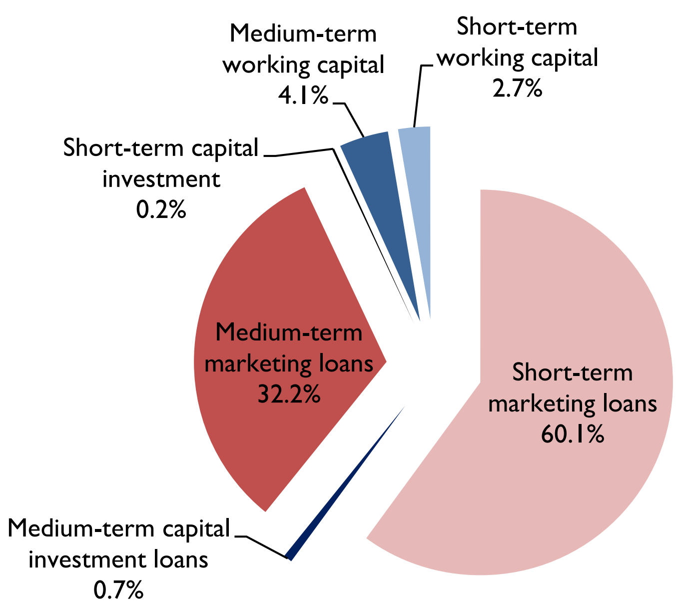
Loan Tenor

The average loan tenor among the MSED and DCA guaranteed loans was just over 10 months (10.2). For the MSED loans, the average was 4 months, compared to an average tenor of 15.4 months among the DCA-guaranteed loans.

The DCA agreement allowed for both short-term (up to 1 year) marketing loans and medium-term (up to 5 years) capital investment loans. CMS data show that 24 of BOA's loans under the DCA guarantee were short-term, while the remaining 15 fell within the medium-term range. Most (69 percent) of the medium-term loans were for 2 years. One lasted 2 ½ years and another lasted 5 years.

The DCA guarantee agreement with BOA specifies that short-term marketing loans should not exceed 60 percent of maximum cumulative disbursements, or $5.4 million, leaving the remainder for medium-term capital investments. The guarantee agreement defines "marketing" as, "consolidation, storage, transportation and distribution of unprocessed, semi-processed and processed agricultural products. Includes stages from point of production to point of purchase by final consumer." Adding the values of all of the short-term loans used for marketing results in $5.65 million, just over the amount authorized in the guarantee agreement. An additional eight loans were reportedly used for marketing purposes but were longer than 1 year in duration. Only two loans were used for capital investment. Both were medium-term and combined, were worth $68,812. The last six loans were used for working capital, which might include marketing activities, but that is not certain. Separating the loans *just* by tenor results in 63 percent of the portfolio value in short-term loans and the remainder in medium-term.

FIGURE 12. LOAN TERMS BY PURPOSE



Source: CMS and BOA records

The evaluator asked the Vice President of BOA why the bank made so many short loans and he responded that the NBE discourages medium- and long-term loans. The NBE, he explained, says that commercial banks like BOA should provide loans for capital expenditures, not for medium- and long-term purposes. Therefore, the bank makes few loans longer than 3 years. As the clients' capacity has grown, they have been able to finance their own capital expenditures so BOA provides them with working capital. The vice president acknowledged, and the NBE confirmed, that there is no regulation stipulating that commercial banks restrict medium- and long-term lending. However, BOA said inspectors have instructed it informally to focus on short-term loans. The state-owned CBE agreed that commercial loans should be primarily for 1 year and no longer than 3 years because with a longer loan, "the commercial company may overtrade and fail." This restriction happened approximately 4 years ago, the BOE vice president said. He added that he agrees with the NBE's premise because BOA generates most of its income from short-term deposits, making it difficult to generate liquidity from the market for longer-term loans. Unfortunately, BOA was not able to provide average tenors across the bank for nonguaranteed loans.

All of the guaranteed loans were term loans. Since at least February 2004, BOA's term loan product has carried a tenor of between 6 months and 7 years.[33] The shortest DCA guaranteed loan was 4.6 months and the longest was 5 years, a slight deviation on the lower end. The loan terms for the MSED-guaranteed loans ranged from less than 1 month up to almost 9 months, consistent with the guarantees' stipulation that the loan tenors not exceed 1 year. These short-term loans are consistent with the MSEDs' focus on marketing activities, allowing cooperatives to use the loans to purchase agricultural products from their members and then pay the money back after selling the products to the market.

The USAID/Ethiopia officers interviewed said farmers mostly want short-term loans because farmers use them to purchase inputs and want to repay after selling their harvest. Cooperatives sometimes need a loan for buying fixed capital, such as vehicles, which is why they sometimes need longer-term loans.

All four of the guarantee beneficiaries (borrowers) interviewed said that they would like to obtain longer loans than what they received either under the guarantee or subsequently. Three of them wanted to use such loans for investment purposes: to build a flour mill, to purchase a machine for making pea bean bags, and to build offices for cooperative members. All three had commissioned feasibility studies for these projects and were trying to find money to implement them. The fourth beneficiary, a coffee processor, simply wanted to have a longer time to pay back the loan to enable him to wait out periods when the coffee price is lower and then sell the stock when the price rises again. Three to 4 years would be preferable for this purpose, he said.

However, the need for short-term marketing loans appears to continue. Four of the five coffee processors interviewed (including two USAID guarantee beneficiaries) explained that while the price

[33] Ethiopian Business Development Services Network

of raw coffee has risen over time, the loan amounts have not, which means that cooperatives have difficulty purchasing all of the raw coffee from their members. Since members expect prompt payment, without sufficient funds for all of the raw coffee, some members sell their coffee elsewhere.

Collateral Requirements

As mentioned above, BOA used the USAID LPGs to help cooperatives short of collateral to meet the minimum collateral requirements for the loans for which they were applying. Without the guarantee, BOA said, it would not have lent to these cooperatives.

USAID's credit risk analysis for the second MSED guarantee determined that in order to reduce risk, BOA was planning to require an additional 25 percent collateral from cooperative union borrowers, over and above BOA's normal requirements. A USAID field visit in early 2004 found that most Ethiopian banks secured their lending with collateral equal to 85 to 100 percent of the principal loan amount.[34] The USAID/Ethiopia officers with whom the evaluator met added that many banks actually demand more than 100 percent collateral, which is simply unaffordable for most agricultural producers. The USAID/Ethiopia representatives added that a NBE regulation advises banks to require 100 percent collateral. Another bank (Zamen), they said, began to lend without collateral and the NBE ordered it to require 100 percent collateral. The U.S. Department of State reported in 2007 that investors other than exporters were required to provide 100 percent collateral on loans from Ethiopian banks.[35]

The NBE's Deputy Director of Economic Research and Monetary Policy Directorate said that the bank does not have collateral requirements. He also commented that agricultural cooperatives for the most part do not have collateral to provide and banks do not look at overall creditworthiness of their applicants.

Two of the other three private, commercial Ethiopian banks interviewed—Awash and Dashen—require at least 100 percent collateral. The Cooperative Bank of Oromia (CBO) does not require any collateral because it receives a regional government guarantee from Oromia and for its members, uses their share in the cooperative as collateral.

Even without collateral requirements, though, one of the BOA branch managers who handled USAID-guaranteed loans said that beneficiary borrowers complained about paying the USAID origination and utilization fees, which BOA passed along to its clients. These fees are in addition to interest and other standard bank fees.

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[34] Ethiopia TDY Trip Report, Feb. 2-13, 2004.

[35] http://www.state.gov/e/eeb/ifd/2008/100861.htm

Interest Rates

The USAID guarantee agreements with BOA do not specify any particular interest rate requirements, instead relying on BOA to set rates consistent with the rest of its loan portfolio. The average interest rate across all USAID-guaranteed loans from BOA was 8.42 percent and the range was 8.25 percent to 9.25 percent.[36] The bank's overall interest rates varied between 7.5 percent and 13 percent in 2004.[37]

USAID's field visit in February 2004 found that the NBE required banks to charge the same interest rate to all customers. This rate had to be greater than or equal to the NBE's minimum allowable interest rate and registered with the NBE. The implication of this requirement was that banks could not use interest rates to manage risk. During the evaluator's visit in December 2009, USAID/Ethiopia officials said that about a year ago, the NBE lifted this restriction, allowing different banks to charge different rates to different customers. The NBE officials with whom the evaluator met said this restriction does not exist, which the Vice President/Operations of BOA confirmed. The bank only sets the minimum deposit interest rate.

However, rates across banks appear to continue to be similar. Through interviews with officers from Awash Bank, CBE, CBO, and Dashen Bank, it was established that all charge 8.5 percent interest for short-term loans. DBE charges 7.5 percent and only offers long-term loans. Both CBO and Dashen Bank charge higher rates, the longer the loan tenor. The NBE's Deputy Director of Economic Research and Monetary Policy explained that most banks tend to look at the CBE for guidance on setting interest rates.

The Vice President of Credit and Risk Management at Awash Bank confirmed the NBE's explanation: "We can't go higher than the Commercial Bank or we'll lose all of our clients. That's why there is little interest rate spread." The CBE, he said, charges 8.5 percent for a 1-year loan and the same rate for a 5-year loan, which is illogical, but restricts what private banks are able to do with interest rates. The Director of Business and Corporate Customer Relations at CBE said that the bank bases its lending interest rate on the minimum deposit interest rate set by the NBE.

As shown in the figure below, the average national lending interest rate has mirrored the average deposit interest rate. The lending rate has hovered between 7 and 10.5 percent since 1998. Among private banks, the average lending interest rate declined from 11 percent in 1998 to 9 percent in 2006.[38] By July 2009, the NBE reported that the average lending interest rate among public banks was 9 percent and that of private banks, 12.25 percent.

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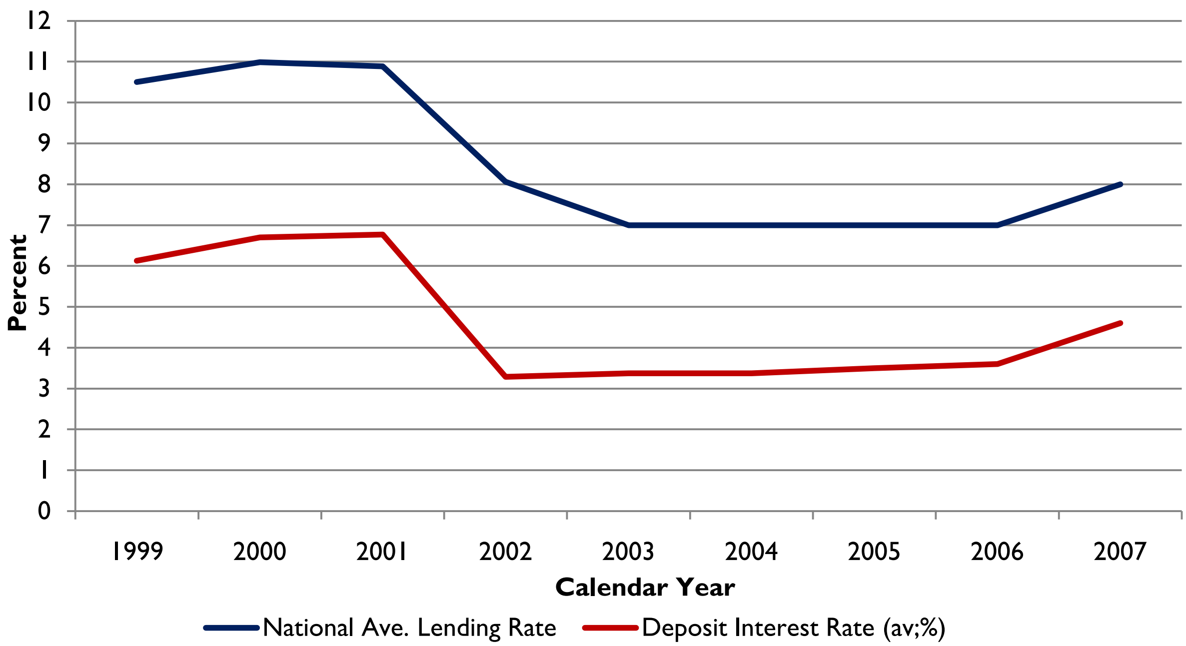
[36] Interest rates are not included in the CMS for 15 of the 33 MSED guaranteed loans.

[37] Ethiopian Business Development Services Network, February 2004.

[38] "Ethiopia," Working Paper, Wharton School of Business, University of Pennsylvania, 2008.

FIGURE 13: NATIONAL LENDING INTEREST RATE (AVE)



Source: Economist Intelligence Unit Reports, USAID

The Ethiopian BDS Network conducted a study of loan products, terms and conditions among banks and microfinance institutions (MFIs) in 2004, which found the following interest rates at each bank:

TABLE 13: BANKS' LENDING INTEREST RATES, 2004

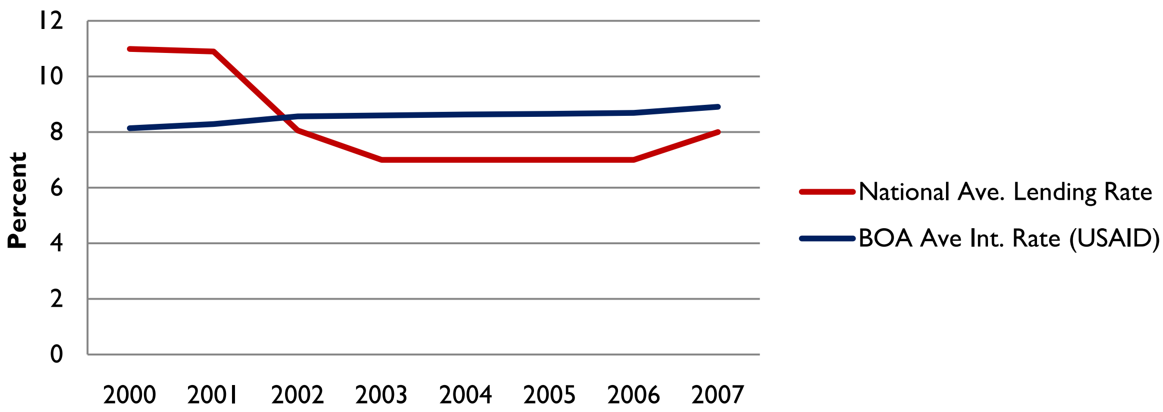
Bank	Lending Interest Rate
Private Banks	
Awash International Bank	10.5%
United Bank	7.5 to 9%, depending on loan type
BOA	7 to 13% for term loans
Dashen Bank	7.5 to 9% for term loans
Government Banks	
CBE	7.5%, variable
DBE	9.75% for regular loans; 7.5% for export-oriented loans

Source: Loan Conditions of Commercial Banks and Micro Finance Institutions, EBDSN, Feb. 23, 2004
Nib International Bank and the Construction and Business Bank sections do not have interest rate details

The figure below compares the average interest rate BOA charged to borrowers under the USAID guarantees and the national average lending rate. As shown, BOA's interest rate for the USAID-guaranteed loans has remained steady, never varying more than one percent and never rising more than two percent above the national average. In addition, borrowers under the guarantee paid an average of nearly three percentage points less than the average interest rate in 2000 and 2001.

Unfortunately, the bank was not able to provide its interest rate history for its nonguaranteed loan portfolio.

FIGURE 14. BOA INTEREST RATE VS. NATIONAL AVERAGE LENDING RATE



Sources: EIU Reports and CMS

The evaluator asked the NBE what rate banks pay to borrow from the central bank, to which the Deputy Director of Economic Research and Monetary Policy replied that banks do not borrow from the central bank in Ethiopia because they already have a lot of liquidity. If a bank does need more cash than what it has on hand, it is encouraged to borrow through the inter-bank money market. Each commercial bank negotiates its own rate to lend to another bank; the NBE does not set the inter-bank lending rate. According to bank lending data obtained from USAID/Ethiopia for the period June 2000-June 2007, no Ethiopian banks have lent to each other since 2001. During fiscal year 2000-2001, the only bank that did any inter-bank lending was the CBE, which lent 82.1 million birr that year.

Arrears

The subject of arrears and nonperforming loans (NPLs) is especially important in Ethiopia because there has traditionally been a poor credit culture in the agriculture sector. Without proper risk management and lack of good information on prospective borrowers' credit history, banks have faced high NPLs. Even though there is a creditworthiness database at the national level, into which banks enter data on their borrowers, according to BOA and Dashen Bank, clients can always change their names or use the name of a family member to obtain a new loan from another bank if he/she defaulted on a previous loan.

The Federal Cooperative Commission (FCC) representative that was interviewed noted that many government-established cooperatives under the military regime defaulted on their loans from the DBE, which has resulted in banks' perception that today's cooperatives have similarly weak management and are therefore not creditworthy. Even government banks do not realize that today's cooperatives are very different from the socialist versions, he said.

A Bankers Association representative said that in his opinion, Ethiopia's land holding policy is to blame for traditionally high default levels in agriculture. Since a farmer cannot own his land, he lacks incentive to develop it and make it more productive. Some years ago, the representative explained, the government did land redistribution.[39] Therefore, it would be logical for farmers to think that such an event may recur, leaving him with no incentive to be productive or improve his plot.

The vice president of BOA agreed that default has been almost encouraged, but for a different reason. The CBE, he said, has been extending credit to some MFIs for onlending to agricultural cooperatives, on the guarantees of regional governments. Most of those loans were not repaid in the past. There were no contracts and sometimes no written undertakings of any kind, so the CBE lost when it tried to take its case to court. As a result of recent legislation, now the CBE can recover money from the regional government's budget in case of borrower default. Therefore, the regional governments have been enforcing cooperative repayment. Now, there is a 90-95 percent recovery rate, the vice president of BOA said, because the cooperatives are barred from obtaining more credit if they do not repay. The NBE confirmed some of this information, explaining that regional governments guaranteed loans to cooperatives for onlending to farmers to help them purchase fertilizer. Because of the high NPLs and moral hazard involved, the regions have stopped providing such guarantees, he said.

The BOA Hawassa Branch Manager agreed that the previous unenforced regional guarantees were a problem and discouraged borrowers from repaying, but said this trend has been improving in recent years as banks like BOA have educated their customers and penalized them for failure to repay by refusing to give another loan. The Hawassa branch, he said, was a loss maker for 6 years. Four years ago, the branch began focusing on credit and managing its portfolio and NPLs are now less than 10 percent, he explained. Fear of risk and NPLs motivated the branch to lend to people short of collateral only if they were existing bank customers, even with the USAID guarantee, the branch manager said.

BOA's vice president added that recent legislation has made it possible to foreclose on a defaulter. Previously, a bank had to go to court in case of default, which the vice president of Dashen Bank said could take 8 to 10 years to process. Now, banks can foreclose on a defaulter's property (i.e., building, house, vehicle) straightaway and have done so, which is encouraging borrowers to repay. This allowance is why banks prefer property, rather than crops or stock, as collateral.

BOA's extra emphasis placed on managing loans under the USAID guarantee, as explained under Question 1 above, resulted in fewer losses under the USAID portfolio than for the bank's general

[39] According to the FAO, the Ethiopian government has occasionally redistributed land to accommodate the growing population and, in some instances (such as the Amhara region's redistribution of 1996), to redistribute land which the government feels was unjustly acquired by former government cadres. As of 2003, control of land administration had been taken away from regional governments and given to political bodies. See http://www.fao.org/docrep/006/y5026e/y5026e08.htm

portfolio. BOA, explained the vice president, suffered from many defaulters in the past and had 142 million birr in provisions in 2008. By contrast, the bank experienced only 1 million birr in NPLs in the USAID portfolio. The bank submitted only three claims for guaranteed loans to USAID, in February 2009, and enjoyed a 100 percent recovery rate from the cooperative unions. Asked what happened to the three for whom claims were submitted, one of the branch managers in charge of USAID-guaranteed loans said that one of his clients suffered from poor business management and another has a coffee business and a drop in coffee prices forced him to default on his guaranteed loan.

BOA's standard procedures for recouping both USAID-guaranteed and nonguaranteed loans begin with a monitoring department that watches each loan from approval date to repayment date. Deviations in payment are watched especially closely so that bad signs can be identified early. Some bad loans are restructured. In this case, the credit officers discuss restructuring with the clients, then present their recommendations to the bank's management. Restructured loans are subjected to even closer scrutiny. If these loans default, the bank finally resorts to foreclosure.

Outcomes

Conclusions and Findings for Questions 3.a and 3.b

Question 3.a: To what extent were desired outcomes achieved so far, as intended in the Action Package and/or Legal Agreement, outside the protection of the MSED / DCA guarantees? What is the potential for sustainability of these outcomes?
Question 3.b: What factors at the partner bank level can be associated with achievement of desired outcomes?

The purpose of each guarantee agreement with BOA describes the outcomes to be achieved, as follows:

<u>MSED 1</u>: To encourage BOA to make 1-year or shorter loans to Lume FCU, Ada Liben FCU, Hettosa FCU, and Ambo FCU. Modified in 2001: To encourage BOA to make 1-year or shorter loans to agricultural cooperatives.
<u>MSED 2</u>: To encourage BOA to make 1-year or shorter loans to agricultural cooperatives or coffee cooperatives.
<u>DCA</u>: To increase access to short-term marketing credit and medium-term investment capital in the coffee, food grains, horticulture, and livestock/livestock products sectors.

To answer Question 3, the evaluator analyzed BOA's non USAID-guaranteed lending according to three parameters: (1) BOA lending to formerly guaranteed borrowers; (2) BOA lending to similar borrowers without a guarantee; and (3) growth of BOA's agriculture sector portfolio compared to its overall lending portfolio.

Conclusions

The USAID guarantees encouraged BOA to enter the agriculture finance sector and the bank will likely continue to lend to this sector, but only to exporters for the near future. Ten years after the beginning of its first MSED guarantee, BOA is still reluctant to invest much in the agriculture sector. As discussed under Impacts below, this reluctance is widespread among Ethiopian banks.

The USAID guarantees introduced BOA to agricultural exporters, which BOA discovered can be valuable conduits of foreign currency, a desirable commodity for the bank. BOA continued to lend to 20 percent of the formerly USAID-guaranteed borrowers because they were profitable. At least 2 and perhaps as many as 15 USAID beneficiaries went to the CBO because it offers better terms for cooperative unions. BOA, with USAID's help, directly increased access to finance for seven borrowers.

Loan terms have changed somewhat, as some former USAID-guaranteed borrowers received preferential collateral requirements, longer loans, and larger loans.

BOA has continued lending to the agriculture sector in general and the percent of its portfolio devoted to agriculture has steadily increased as it has discovered the profitability of some agricultural sub-sectors. However, it is not willing to lend to borrowers with insufficient collateral or who lack solid repayment histories with other banks. In addition, BOA will likely continue lending only to agricultural exporters because it believes they are the most profitable members of the agriculture sector. This practice is to be expected for a private, for-profit business.

Findings

BOA Lending to Formerly Guaranteed Borrowers

According to data which BOA provided to the evaluator, the bank has given nonguaranteed loans to eight of the borrowers who first came to the bank under the USAID guarantee program. Four businesses received multiple nonguaranteed loans. With the exception of one coffee cooperative union, all of these borrowers received their first loan under the DCA guarantee. Again with the exception of the coffee cooperative union (Yirgacheffe Coffee FCU), none of the rest of the borrowers was a union. Five of the eight borrowers are based in SNNP, two are in Addis Ababa, and one is in Oromia.

Six of the eight borrowers were coffee processors and/or exporters. The remaining two handled grain and livestock. The Vice President/Operations of BOA told the evaluator that the bank's nonguaranteed lending to the agriculture sector has focused primarily on export crops, especially coffee and sesame. The cattle market, he said, is expanding as a result of increased demand from the Middle East. The BOA Hawassa Branch Manager said that his branch's agricultural lending is only to the coffee sector. Both he and the vice president explained that the focus on exportable goods results from the bank's need for foreign currency. The bank is even willing to relax collateral requirements to attract exporters.

Examining the loan terms of each of the eight borrowers who graduated from the USAID guarantees, seven provided collateral valued at less than 100 percent of the loan amount plus interest they received. In fact, the average collateral requirement was 90 percent and ranged from 56 percent to 165 percent, though the top end reflects the value of merchandise used to guarantee a merchandise loan. The average tenor was 17 months, ranging from 4 ½ months to 3 years. The average interest rate was 9.31 percent, ranging from 9.25 percent to 9.75 percent.

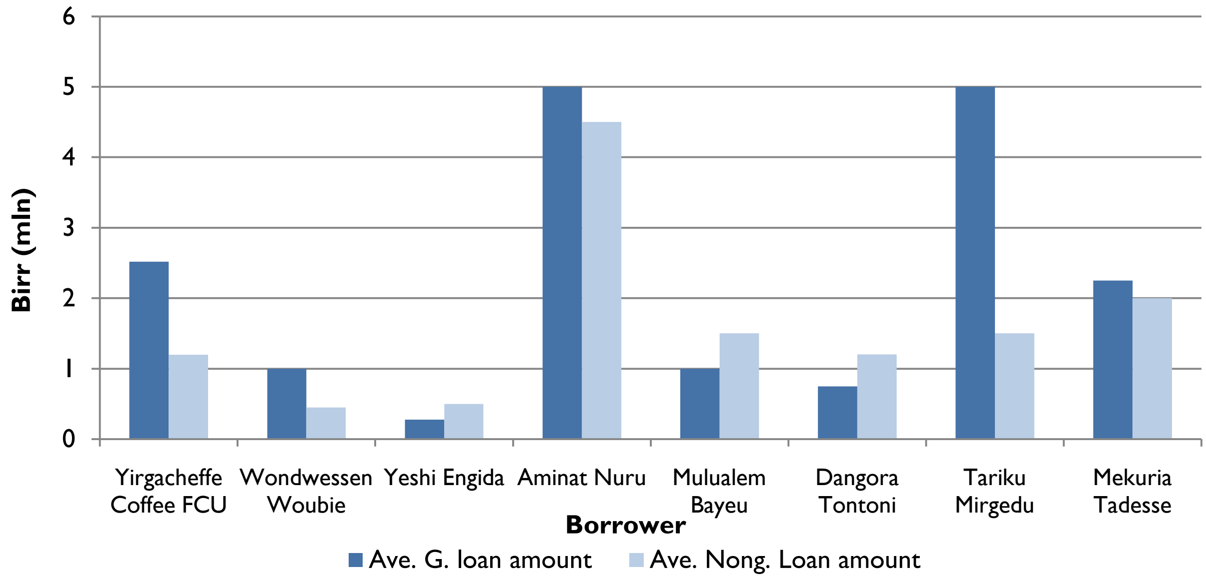
TABLE 14. NONGUARANTEED LOAN TERMS

	Average Nonguarantee Collateral Required	Average Guarantee Tenor (months)	Average Nonguarantee Tenor (months)	Average Guarantee Interest rate	Average Nonguarantee Interest rate
Yirgacheffe Coffee FCU	127%	5.28	5.5	8.63%	9.25%
Wondwessen Woubie	121%	12	25.75	8.25%	9.38%
Yeshi Engida	66%	18	24	8.25%	9.25%
Aminat Nuru	99%	24	15	9.25%	9.50%
Mulualem Bayeu	56%	24	not yet decided	8.78%	9.25%
Dangora Tontoni	78%	24	18	9.25%	9.25%
Tariku Mirgedu	142%	24	24	9.25%	9.25%
Mekuria Tadesse	80%	12	12	8.75%	9.25%

Source: BOA

On average, USAID-guaranteed loans were 618,006 birr higher than nonguaranteed loans to the same borrowers.

FIGURE 15: BORROWERS WITH GUARANTEED AND NONGUARANTEED LOANS



Sources: CMS and BOA

The evaluator spoke with the managers of both Tariku Mirgedu and Yirgacheffe FCU and both confirmed that they continue to bank with BOA and see no reason to switch. In Tariku's case, Mr. Tariku said that BOA's current collateral requirement is low, which is why he continues to bank there. Although BOA's records show that Mr. Tariku is currently providing collateral worth 142 percent of his loan amount plus interest, Mr. Tariku said that his current loan value is 4.1 million birr, compared with the 1.5 million birr in the records BOA provided to the evaluator. In addition, Mr. Tariku explained that 700,000 birr of his current loan has no collateral requirement attached. The manager of Yirgacheffe FCU told the evaluator that he borrows from BOA because the bank makes financing decisions quickly, provides him with technical assistance in business management, and has sufficient capital to provide larger loans than other banks. All of these factors combined have given him a more positive experience than what he had previously with Awash International Bank, which he said was too slow.

The Story of the Cooperative Bank of Oromia

- Founded in March 2005 by the then head of the Oromia Cooperative Promotion Bureau
- Established to respond to problem of banks' refusal to lend to cooperative unions
- Licensed by National Bank of Oromia
- Supervised by National Bank
- Accepts deposits from anyone
- Lends only to cooperatives
- Owned by cooperatives

The USAID officers with whom the evaluator met in Washington prior to the Ethiopia field work said that some of the original cooperative unions under the MSED guarantees switched to the CBO when their guaranteed loans at BOA expired. The Manager of the Credit and Risk Management Department at the CBO confirmed this information and explained that since cooperatives own the bank and therefore understand cooperative needs, it is easier and more efficient for cooperatives in general to borrow from the bank. The bank was founded in March 2005 by the head of the government's Oromia Cooperative Promotion Bureau at that time, along with some of his colleagues.

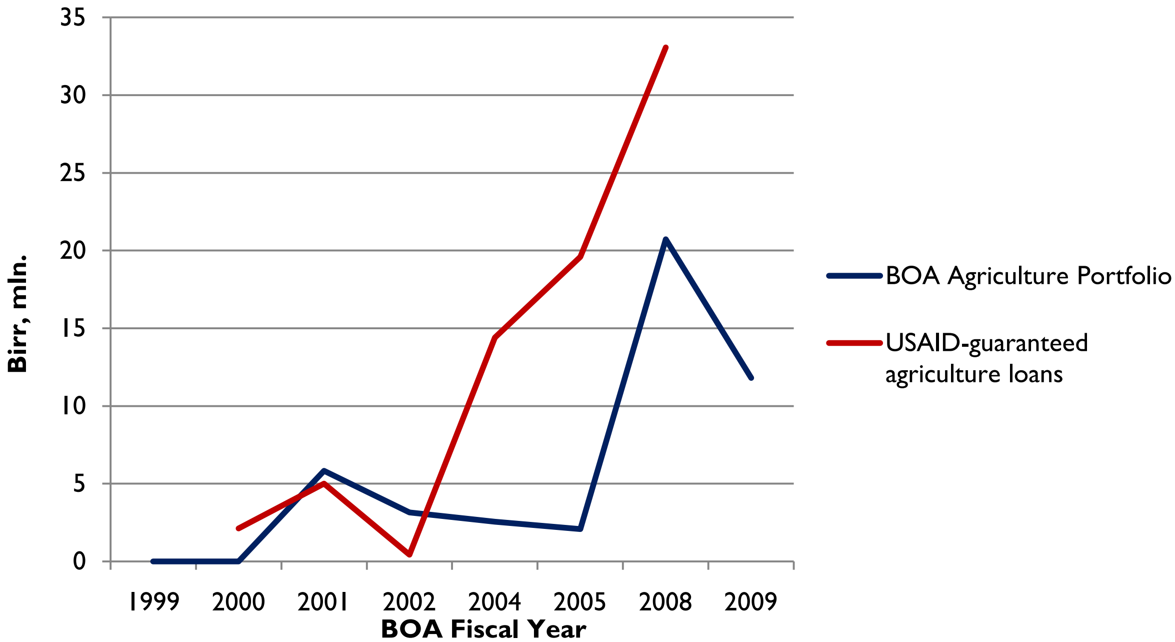
Two of the cooperative unions whom the evaluator visited currently bank with the CBO; both are in the Oromia region. The manager of one of these unions said that he banks with CBO because the loan amount is higher and the government provides a guarantee fund to the bank, through which loans come collateral-free for cooperative unions. A CBO manager confirmed the existence of this guarantee fund and explained that it is meant to guarantee projects like warehouse construction. The cooperative union manager said that he did not even attempt to apply for a nonguaranteed loan from BOA because he assumed that BOA would not be interested in lending to cooperative unions without a guarantee.

A manager of the other cooperative union who is now banking with the CBO said that even though he repaid his USAID-guaranteed loan in full, BOA refused to grant a new loan without collateral, which the union did not have. In addition, he said, the management of the CBO is stronger than at BOA. Specifically, the CBO provides more follow-up and assistance with fund management. BOA, he said, did not follow up with the union to be sure it paid on time.

BOA Lending to the Agriculture Sector

Figure 16 below shows BOA's lending to the agriculture sector from 1999 to 2009. It was not clear from BOA's annual reports whether the agriculture lending reported included the USAID-guaranteed portfolio or not, but certainly for the years 2004 on, it could not have, since the value of the USAID portfolio those years exceeded the agriculture portfolio reported in BOA's annual reports. Therefore, it is assumed that at least from 2004 on, the BOA agriculture portfolio figures depicted below represent nonguaranteed loans.

FIGURE 16. BOA LENDING TO AGRICULTURE, 1999-2009



Source: BOA Annual reports, based upon fiscal years beginning July 1 and ending June 30. Includes both loans and advances.

For the years 2008 and 2009, nonguaranteed loans to former borrowers under the USAID guarantees accounted for 16 percent and 55 percent, respectively, of the total amount of BOA lending to the agriculture sector for those years.

The figure above does not include loans and advances for agricultural exports, which the bank defined separately only for 2004 and 2005. Figures for those years are displayed in the table below.

TABLE 15: EXPORT LOANS AND ADVANCES, AGRICULTURE

	2004	2005
Oil seeds and pulses	3.473	7.171
Coffee	99.075	116.664
Other exports	0	3.222
TOTAL	**2,106.548**	**2,132.057**

Figures are in millions of birr.

There is no information, however, on what kind of borrowers received the export loans above; therefore, it is not possible to know whether they went to cooperatives, coffee processors, or strictly exporters.

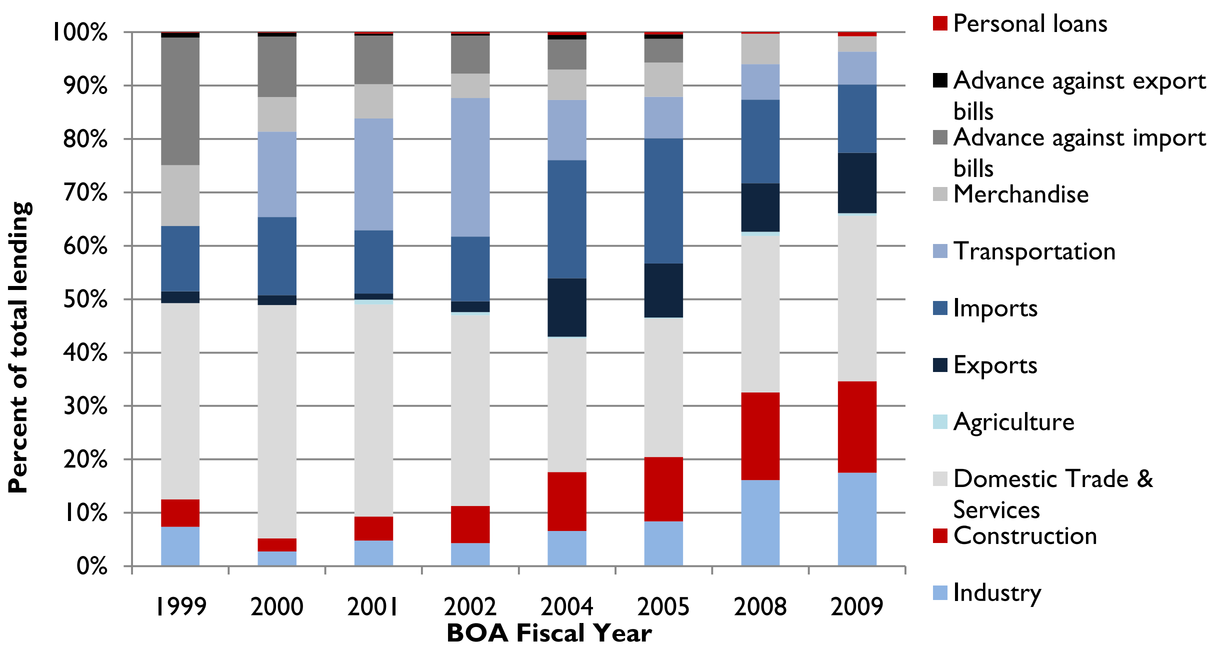
The BOA Hawassa Branch Manager informed the evaluator that currently, of the branch's 190 million birr active portfolio, the coffee sector (the only agriculture area served by this branch) accounts for 63 percent. The interest rate for these loans is between 9 and 10 percent and the tenors are for 1 year each. The branch manager believes the bank will continue to lend to the coffee sector because it is an export crop that brings foreign currency to the bank.

The Vice President/Operations of BOA commented that while the bank has been lending to the agriculture sector without the guarantee, it has only been to those enterprises with solid lending histories with other banks. The bank is not comfortable providing loans to new customers with insufficient collateral, he said. The bank needs another guarantee for this sector because "there are still so many people with good ideas but who lack collateral. We cannot lend to these people." As a for-profit business, BOA invests in the most profitable sectors, the vice president explained. Therefore, the bank plans to continue to lend to the export areas of agriculture—coffee, sesame, and cattle.

BOA Lending by Sector

Agriculture has risen from a base of nothing in 1999 to 0.79 percent ($2.1 million) of BOA's total disbursements in 2008, as shown in the figure below. Although agriculture's share of BOA's lending remains very small, BOA's lending to agriculture grew 102 percent between 2001 and 2009.

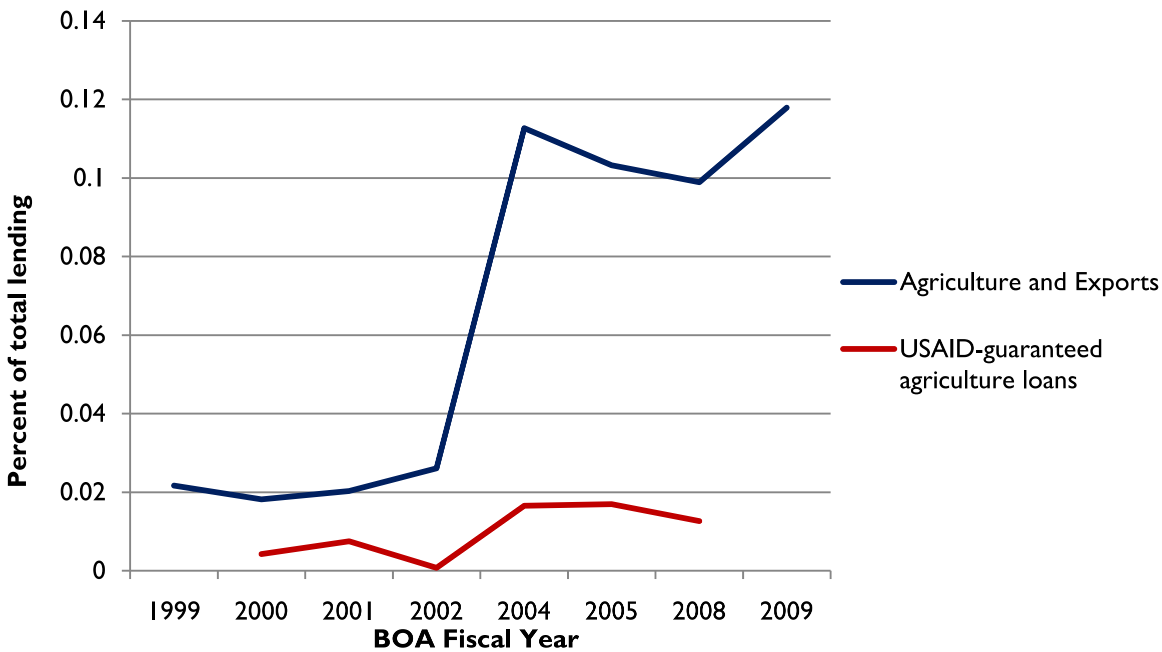
FIGURE 17. BOA LENDING, 1999-2009



Source: BOA Annual Reports for fiscal years July 1 to June 30, 1999 to 2009

The percentages in the figure above are consistent with BOA's Vice President/Operations statement that the bank is still not able to lend to the agriculture sector without collateral. Even exports stand at a relatively small percentage of the bank's overall lending. If one assumes that all of the bank's export lending represents agricultural goods and adds export figures to agriculture figures, the total represents 11.8 percent of the bank's total lending in fiscal year 2009.

FIGURE 18. BOA AGRICULTURE AND EXPORT LENDING AS % OF TOTAL LENDING



Source: BOA Annual Reports and CMS

The assumption that at least most of BOA's lending to the export sector represented exports of agricultural goods may be valid for 2004 and beyond, since this was indeed the case during 2004 and 2005, for which disaggregated figures are availble (see Table 15 above).

Impacts

Conclusions and Findings for Question 4.a

Question 4.a: Did other, non-partner banks initiate or increase lending to the sectors / regions (agriculture/cooperative lending) targeted by the guarantees?

Conclusions

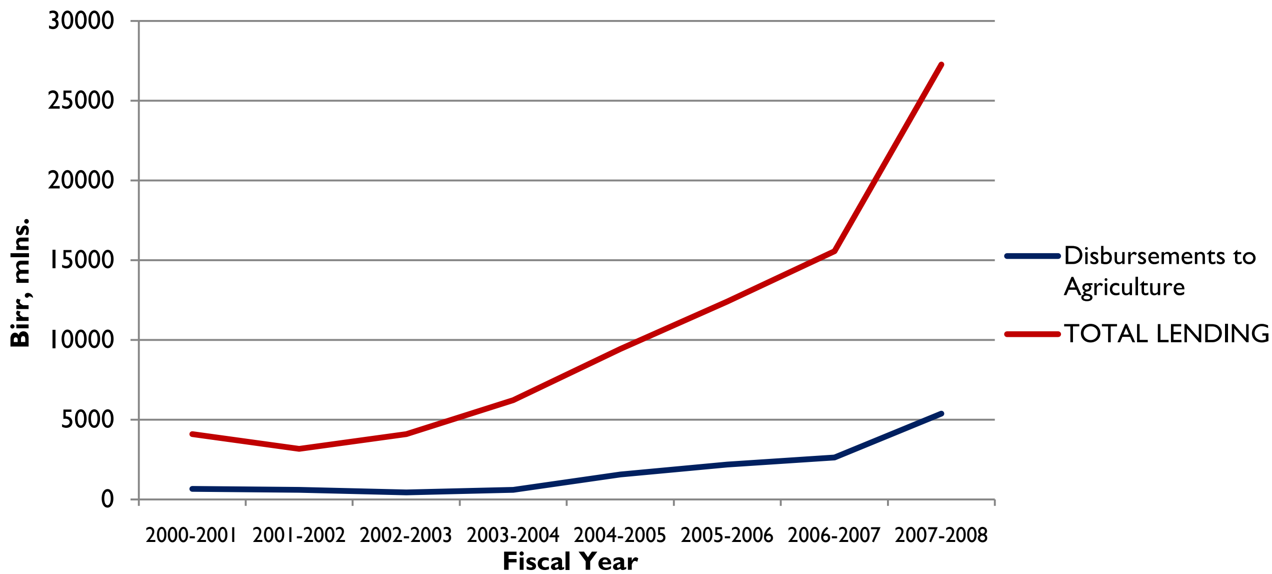
All banks have increased their lending to the agriculture sector. Government-owned banks' behavior results from government policy focusing increasingly on supporting agriculture since 2000. The attractiveness of certain Ethiopian agricultural exports have motivated private banks to engage increasingly with the sector, along with a professed desire to support a sector that plays a large role in the country's economy. Exportable crops are profitable and generate foreign currency, which every interviewed bank to is eager to have.

CBO has made significant advances in the agricultural lending market, out of a desire to help cooperatives.

Findings

The figure below depicts the Ethiopian banking sector's lending to agriculture as compared to total lending, from 2001 to 2008. As shown, agriculture's share of total lending has increased from 16 percent in 2001 to 20 percent in 2008, with the largest gain during the 2007-2008 fiscal year.

FIGURE 19. ETHIOPIAN BANKING SECTOR LENDING



Source: NBE, through USAID. Original sources: commercial banks and DBE.

A possible explanation for this recent increase is that the CBO increased its overall lending in 2007-2008 by 249.9 percent, a 96.8 percent change in its percentage share of loans and advances among all Ethiopian lender banks. The bank lends only to cooperatives, primarily for marketing and post-harvest technologies.[40] In the 2007-2008 fiscal year, the bank lent a total of 1337.6 million birr, placing it in sixth place for percentage share of loans and advances among the 11 public and private Ethiopian banks, behind the CBE, Wegagen Bank, Dashen Bank, BOA, and Awash International Bank. The CBO estimated that 35 to 40 percent of its lending is not guaranteed by USAID, resulting in an estimated nonguaranteed amount of 468 to 535 million birr. By comparison, BOA's lending to agriculture in 2007-2008 amounted to 20.72 million[41] birr.

Examining each bank's lending to the agriculture sector produces the figure below. Note, however, that exports are not included in these figures; therefore, the total amount of lending to agriculture could be much higher. As shown, all banks increased lending to the agriculture sector between 2001 and 2007. It is not clear whether the values are inflation-adjusted, but comparing them with the World Bank's figures for commercial bank and other lending during the same time period in current U.S. dollars suggests they are not (see Figure 21 below).

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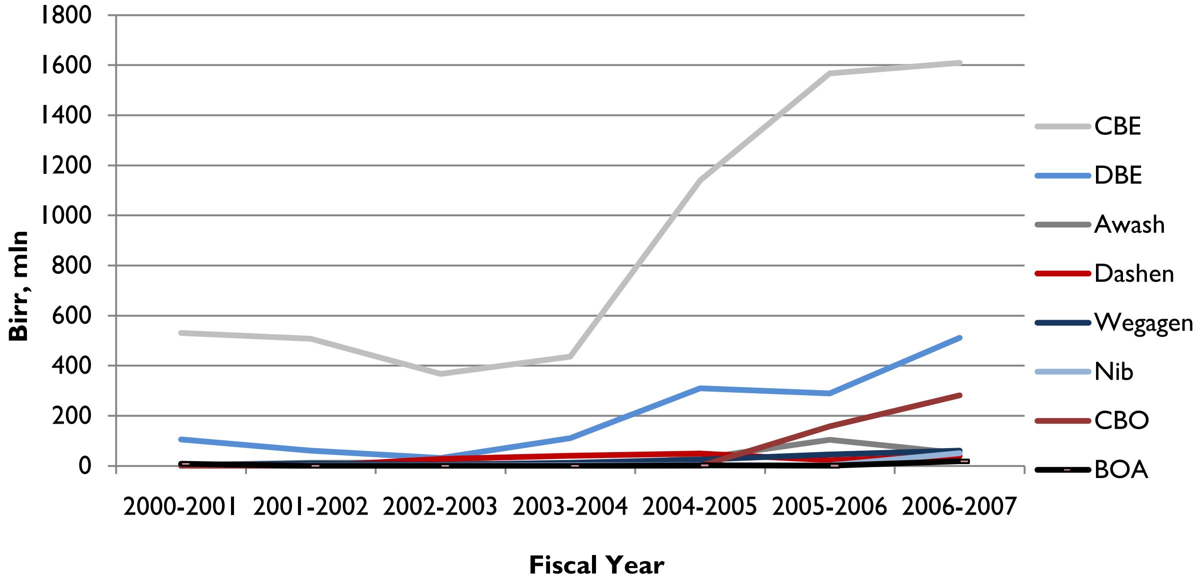
40 Per the Cooperative Bank of Oromia

41 Bank of Abyssinia Annual Report for 2007-2008

Consumer price inflation in Ethiopia has been steadily increasing since 2002, reaching a high of 44.4 percent in 2008[42]. On average, inflation was 7.9 percent over the period 2001-2007.[43]

FIGURE 20. ETHIOPIAN BANKS' LENDING TO AGRICULTURE, 2001-2007



Source: NBE, through USAID

CBE=Commercial Bank of Ethiopia; DBE=Development Bank of Ethiopia; CBO=Cooperative Bank of Oromia

Construction and Business Bank, United Bank, and Lion Bank did not lend to the agriculture sector during this period.

The NBE statistics for BOA's agricultural lending do not match its annual report statistics. This difference could not be accounted for, the NBE's data has been used in this figure to enable comparison with the other banks' data.

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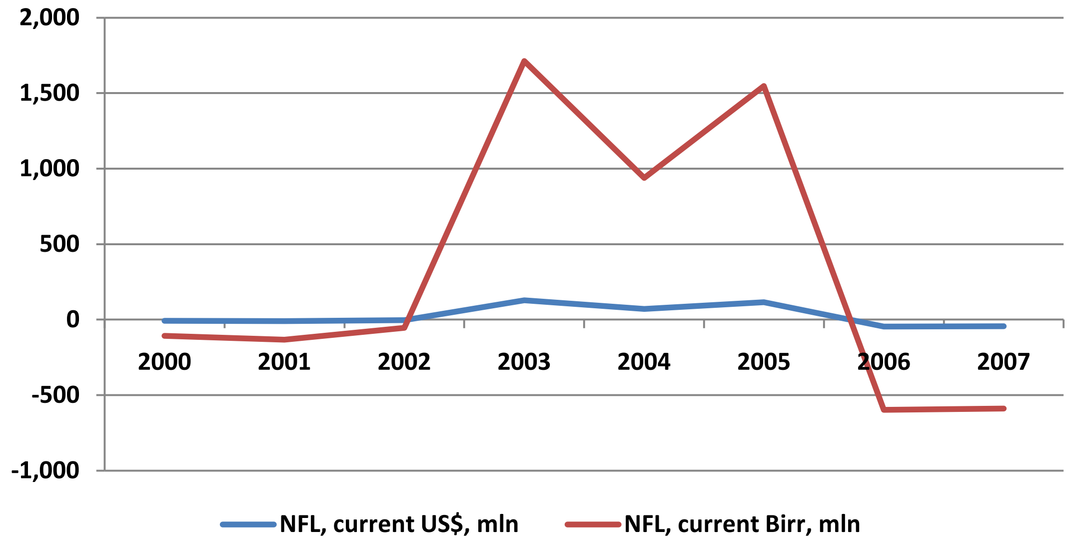
42 The Economist Intelligence Unit

43 Ibid.

FIGURE 21: ETHIOPIAN COMMERCIAL LENDING, 2000-2007



Source: World Bank World dataBank, http://databank.worldbank.org/ddp/home.do?Step=2&id=4
Conversion from U.S. dollars to Ethiopian Birr done on April 28, 2010 using Oanda's currency converter.

As shown in Figure 20, the government banks, especially the CBE, have led agricultural lending in terms of volume. CBE's Director of Business and Corporate Customer Relationship Management estimated his bank began lending to the agriculture sector approximately 10 years ago. Its clients include individuals, cooperatives, and cooperative unions, as well as commercial farmers. Ethiopia's regional governments manage the loans through cooperatives, unions, and MFIs. Relationship managers then follow up on the loans. The CBE director added that the bank provides some collateral-free loans to export sectors.

CBE is also a member of the African Rural and Agricultural Credit Association (AFRACA), which brings together government and private backs across Africa to work towards sustainable access to finance for economic development, including through agricultural development. AFRACA began operating in the 1970s with the help of the FAO.[44]

Among private banks, Awash and Dashen were the leaders in agricultural finance, up until fiscal year 2006-2007, when CBO's lending surged. Awash received a DCA guarantee to support lending to the agriculture sector at the same time that BOA received its DCA guarantee (September 28, 2004). Dashen received its own DCA guarantee for the same purpose in 2005. It is not clear whether the two banks included their DCA-guaranteed lending in their overall figures for agriculture sector lending reported to the NBE, but if so, DCA guaranteed lending represents 36 percent and 50 percent of Awash's and Dashen's total lending to the agriculture sector 2005-2007, respectively.[45]

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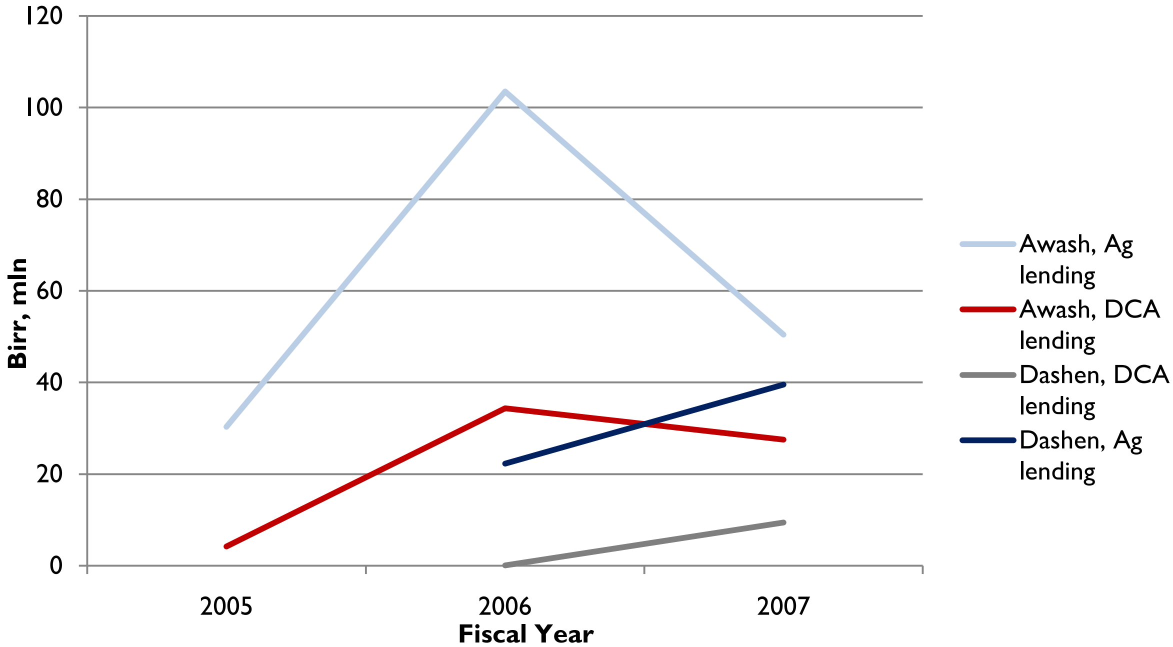
[44] AFRACA website, http://www.afraca.org/index.php?main=mission
[45] CMS and National Bank statistics

FIGURE 22. AWASH AND DASHEN AGRICULTURE LENDING



Sources: CMS and NBE

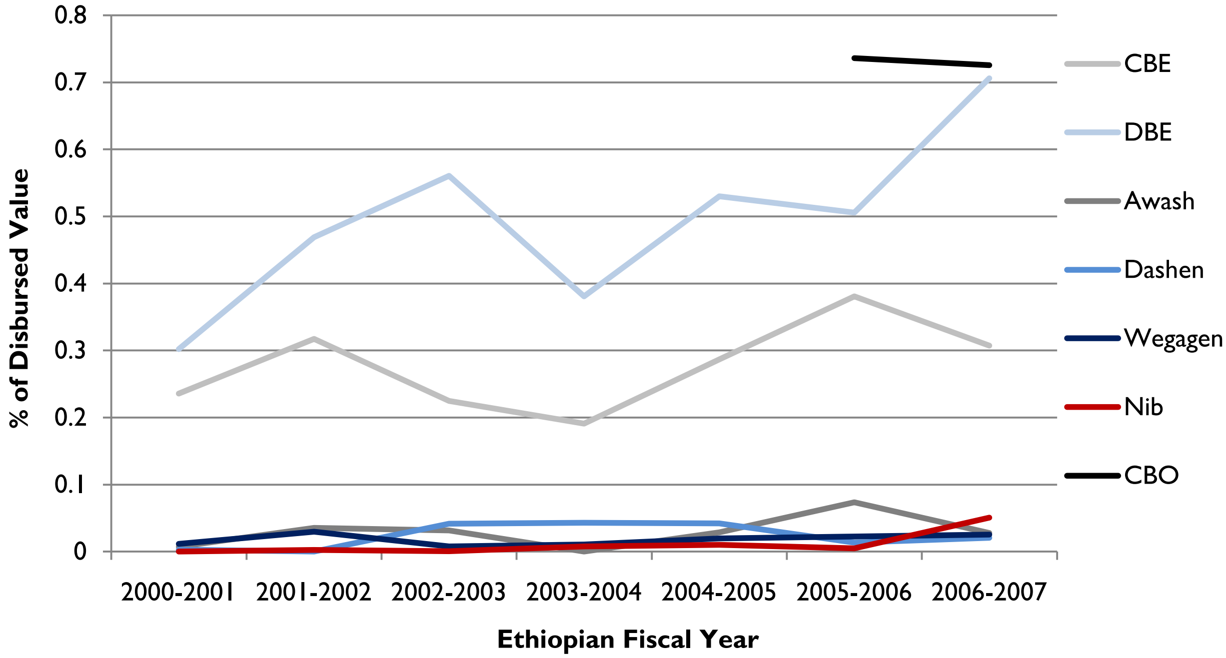
Nevertheless, Awash and Dashen still lent the most birr to the agriculture sector compared to the other private banks during 2001-2006.

A Dashen Bank vice president told the evaluator that the bank began lending to the agriculture sector when it was first established in 1995. Lending focuses on commercial activities such as, cattle fattening, dairies, and floriculture; rather than crop farming. Most investors in these areas have been local, although international investors began to enter the market 3 or 4 years ago, he said.

An Awash Bank vice president said his bank began lending to the agriculture sector when it was first established, too, 14 years ago. In fact, most of the bank's customers at that time were suppliers of agricultural products, large-scale farmers, flower farms, and exporters, he said.

Examining the percentage of each bank's portfolio devoted to agricultural lending paints a starkly different picture than Figure 20 above.

FIGURE 23. PERCENT OF ANNUAL DISBURSEMENTS TO AGRICULTURE



Source: NBE statistics, through USAID/Ethiopia

As shown, with the statistics presented in this way, DBE claims the lead for agricultural lending until 2005, when the CBO was established. In addition to the USAID guarantee it received recently, CBO also has a guarantee from the Regional Government of Oromia to lend through cooperatives to farmers.[46] The Vice President/Credit Service of DBE told the evaluator that the bank is shifting away from cooperatives and lending to big businesses instead. Only large individual farms have the capacity to receive a loan from DBE now. In addition, the bank provides only long-term development loans; not commercial loans.

Reasons for Increasing Agricultural Lending

Two government banks—CBE and DBE—naturally had policy reasons for lending to the agriculture sector.

The DBE began lending to the agriculture sector when it was first established 100 years ago as the Société Nationale d' Ethiopie pour le Dévelopment de l' Agriculture et de Commerce (National Society for the Development of Agriculture and Trade).[47] Under the Derge, the bank supported government-established agricultural cooperatives.[48] Now, however, even the DBE is finding it difficult to lend to the agriculture sector because most would-be borrowers lack collateral and those who do have collateral lack vital knowledge of management, market penetration, competitiveness, and technical expertise to develop and implement viable projects. Nevertheless, recent government

46 Bankers Association and CBO

47 http://www.dbe.com.et/About/History.htm

48 ACDI/VOCA and the Federal Cooperative Commission.

policy has dictated that DBE focus increasingly on agriculture, specifically the export sector (e.g., coffee, cotton), the VP/Credit Service said.

In CBE's case, the bank is following Ethiopian government policy to increase the country's self-sufficiency, said the director that was interviewed. Ethiopia has three million hectares of arable land[49], he explained, but is using only three percent of it. In addition, the country needs foreign currency and agricultural exports have proven an effective way of obtaining it. Coffee, sesame, and pea beans, the director said, are Ethiopia's major exports. Once the country is able to build its supply of foreign currency and develop profitable agriculture, the government can focus on infrastructure such as, electricity.

Among private banks, three out of four emphasized the desire to help support the unbanked agriculture sector. For example, the CBO, as explained above, was founded by former officers of the Oromia Cooperative Promotion Bureau who saw that cooperative unions were unable to obtain financing. These individuals created the cooperative bank to address the problem. Awash Bank commented that the bank has been lending to the agriculture sector since it began lending 14 years ago.

Three private banks highlighted the fact that they can obtain foreign currency by lending to agricultural export sectors.

One bank, as well as representatives of ACDI/VOCA and USAID, said that since agriculture is such a big part of the country, most businesses are involved in it in some way. The USAID officers pointed out that 85 percent of Ethiopians are engaged in agricultural activities. In addition, the exportable agricultural goods are very profitable. For example, USAID said, the cut flower industry went from nothing 5 years ago to generating $170 million per year now. Dashen Bank's officer also highlighted the importance of the flower industry to his bank's business.

Conclusions and Findings for Question 4.b

Question 4.b: If so, what role did the MSED/DCA guarantees play as a demonstration model?

This question is answered by examining whether and to what extent BOA is perceived as a leader in agricultural finance among its peers.

<u>Conclusions</u>
The USAID guarantees to BOA did not play any perceptible role in other banks' decisions to lend to the agriculture sector. The Ethiopian banking sector in general does not see BOA as a leader or

[49] This figure conflicts with the CIA World Factbook, which estimates that Ethiopia has more than 10 million hectares of arable land.

role model in this sector, nor do they know much about BOA's experience with the guarantee or its forays into the agriculture finance market. As explained above, all banks interviewed have other reasons for devoting more investment resources to agriculture.

<u>Findings</u>
The evaluator asked interviewees to state which banks they think are leaders in the agricultural finance sector in order to determine to what extent BOA may have influenced other banks' lending patterns. Of the nine interviewees able to answer this question, four named the CBO as the leader of all Ethiopian banks in this sector. DBE ranked second, with three votes. The only interviewee who named BOA was a BOA representative.

Although all interviewees (including the NBE) had heard of the USAID guarantees to support agricultural lending, none saw BOA as a leader in this area. The evaluator asked the Vice President/Operations of BOA whether the bank had shared its experience with agricultural lending with other banks. He replied that it had, indeed, particularly through the Bankers Association. However, although the General Secretary of the Bankers Association had heard that BOA had no defaulters under the USAID guarantee, he did not think that BOA had ever discussed or written about its experience with its peers. The FCC said BOA has not published or disseminated information about agricultural lending through the FCC.

None of the bank vice presidents that were interviewed (CBE, DBE, NBE, Awash, Dashen), with the possible exception of CBO, knew much of anything about BOA and nothing about its agricultural lending activities. An ACDI/VOCA representative thought that information on BOA's experience with agricultural lending would constitute a "trade secret" and therefore BOA would not share it. The Senior Expert in Cooperative Promotion[50] at the FCC thought that other than the fact that BOA lends to coffee cooperatives through USAID, it is no different from any other bank when it comes to financing cooperatives.

The Bankers Association representative said he is seeing increasing interest among member banks in lending to the agriculture sector, but they will not do it without a guarantee, preferably for at least 75 percent of the loan amount. Some banks are contemplating lending through cooperative unions. Agriculture, he opined, is difficult to manage and monitor and the banks are young and have to be careful during this stage of their growth.

Conclusions and Findings for Questions 5.a, 5.b, and 5.c

Question 5.a: Did loan access and/or terms change for borrowers within the targeted sectors overall?
Question 5.b: If so, how and why?

50 This man said he has been with the FCC since it was founded 6 years ago. The Director of the FCC, Mr. Yaregal, referred the evaluator to the Senior Expert as the authority within the FCC on agricultural cooperatives.

Question 5.c.: What role did the MSED/ DCA guarantees play as a demonstration model?

Conclusions

Loan access has improved somewhat over the last 10 years, especially in the last 5, mainly because of the efforts of the government banks and the CBO, which provide collateral-free loans to agricultural exporters and cooperatives. Other private banks lower collateral requirements for some exporters to increase their foreign currency holdings. Some agriculture sector borrowers have increased their capital and are able to qualify for larger loans with their own collateral. Government tax breaks and other concessions to export-oriented sectors and agro-processors are likely responsible for the growth of coffee cooperatives, especially. This government support, in turn, likely makes supported borrowers more attractive to private banks. However, inflation is a huge problem with which loan amounts have not appeared to keep pace.

Collateral requirements have lessened for some exporters and borrowers from banks with guarantees of some kind (e.g., government-backed, member-backed), but remain too high for most new borrowers. On the other hand, recent growth of Savings and Credit Cooperatives (SCCs) suggests that more new borrowers at the farmer level are gaining access to credit.

The DCA guarantee clearly influenced BOA and Dashen Bank to increase lending to the agriculture sector. However, no interviewees cited these banks' lending behavior as an impetus for changes in other banks' lending behavior. The agriculture finance sector appears to be still largely underserved and increases in lending have resulted from food price increases on the agricultural market and government policies.

Ethiopia continues to lack the capacity and resources to make great strides in development of the agriculture finance market.

Considering the menagerie of players in the Ethiopian agriculture sector, the government policies and world prices affecting financing for the sector, it is unlikely that the USAID guarantees have had a perceptible impact on access to finance for the sector. On the other hand, USAID can take credit for increasing access to credit for borrowers who obtained their first loans through the DCA guarantees and subsequently received non-USAID-guaranteed loans.

Findings

One of the ways these questions were assessed was to talk to borrowers who had received USAID-guaranteed loans from BOA to find out where they are banking now and if, in fact, they see a change in access to credit. Banks were also asked about their current loan terms for agricultural borrowers.

The table below compares interviewees' most recent loan sizes and terms with previous loan sizes and terms. The italicized figures represent USAID-guaranteed loans. Five of the seven interviewees said they received their first loan from a bank in the early to mid 2000s. One received his first loan in 1975 and another in 1997; however, they were not able to provide information on those early loans. Therefore, the information below these two individuals' previous loans is based on more recent loans granted within the last few years.

TABLE 16: BOA BORROWERS' LOAN TERMS

Borrower	Amount 1st Loan	Amount recent loan (birr)	Coll. Requ. 1st loan	Coll. Requ. Recent loan	Tenor 1st loan	Tenor recent loan	Int. Rate 1st loan	Int. rate recent loan
Ambo FCU	836,656	4.5 m	50%	0	< 1 yr	1 yr or less	8.25%	7 - 9%
Becho Wolisso	565,750	5 to 10 m.	50%	0	< 1 yr	1 yr or less	8.25%	8.50%
Coffee Station 1	500,000 to 1 m.	5 m.	> 100%	> 100%	1 yr or less	1 yr or less	8.95%	9.25%
Coffee Station 2	100,000 to 500,000	1 to 3 m.	> 100%	> 100%	1 yr or less	1 yr or less	8.5%	9.0%
Coffee Cooperative	100,000 to 500,000	3 to 5 m.	50 to 80%	50-80%	1 yr or less	1 yr or less	6.50%	8.50%
Tariku Miregdu Harro	700,000	5 to 10 m.	> 100%	80-100%	1 yr or less	1 yr or less	7.5%	9.25%
Yirgacheffe FCU	2.518 m.	15 m.	50%	67%*	1 yr or less	1 yr or less	8.25%	9.25%

Sources: CMS and borrower interviews

For those borrowers who received multiple loans under the USAID guarantee, the figures provided here are averages.

**Yirgacheffe's collateral is its coffee stock, so the percentage given here is based upon the current value of that stock and its current loan value.*

As shown, all borrowers realized an increase in loan size. Collateral requirements have changed little or not at all, with the exception of Ambo and Becho-Wolisso, which receive loans collateral-free from CBO. Loan tenors have not varied and interest rates have increased. However, the fact that five of the seven borrowers have received larger loans more recently than previously with little or no change in the collateral requirement suggests that those five built up enough collateral to qualify for more credit.

For example, the Becho-Wolisso representative said his union has accumulated collateral over the years, including a small office building, a warehouse, and two vehicles. The union staff has grown from 2 people to 28. He attributed this growth to support the union received from ACDI/VOCA under contract with USAID, through which the union received training, furniture, and computers. Two years ago, the union started supplying goods for its members and helped them to raise animals. The union sells the grain it purchases from its members to the market in Addis Ababa. The union's car has allowed it to transport fertilizer, thereby raising the profit margin. Nevertheless, the union representative concluded that there has been little change in access to finance because the union has only 20,000 birr (approx. $1,461) in capital and it distributes 70 percent of its profit among its 8,000 member farmers. Therefore, there is little money left to use for investment or as collateral.

The table below displays the change in loan terms for various banks between 2004 and 2009.

TABLE 17: COMPARISON OF LOAN TERMS 2004 & 2009

Banks	2004 Tenors	2009 Tenors	2004 Interest Rates	2009 Interest Rates
BOA	6 mnths to 7 yrs. For term loan	6 mnths to 7 yrs.	7 to 13%	7 to 13%
Awash Bank	12 to 24 months	For agr. Inputs: 1 yr. Investment: 3-5 yrs. Long-term: max. 10 yrs. Floriculture: 6-8 yrs.	10.5% + 5% service charge	8.5-11%
CBE	Short-term: max. 1 yr. Med.-term: 1 to 5 yrs. Long-term: 5 to 15 yrs.	Short-term: max. 1 yr. Long-term: max. 15 yrs. For agr. (20 for others) Commercial activities: 1-3 yrs, but 5 yrs for coffee	7.5%	8.5% 5% for agr. Input loans to farmers
CBO	N/A (not yet est.)	Short term: max. 1 yr. Medium-term: 1 to 3 yrs. Longer-term: 3 to 5 yrs.		9% for short-term; 8.5% for agr. Inputs 11% for med. Term 11.5% for longer term
Dashen	12 mnths to 6 yrs.	Agriculture loans receive only short- and medium-term	Term loan: 7.5 to 9.5%	8.5% for short-term 9 to 9.5% for med. Term 10% for long-term
DBE	Short-term: 1 yr. Med.-term: 1 to 5 yrs. Long-term: 5 to 15 yrs.	Only long-term	9.75% 7.5% for export-oriented loans	7.5% for export-oriented loans

Sources: Ethiopian BDS Network for 2004 data; bank representatives for 2009 data, except for BOA.

As shown, tenors at Awash Bank and DBE have changed, but for the most part, tenors are consistent across banks and years. Interest rates have risen slightly or remained the same. However, four banks introduced loan products specifically targeting the agriculture sector.

Collateral Requirements

Some banks have reduced their collateral requirements for agricultural borrowers, while others apply their standard requirements or even more stringent ones, as shown in the table below.

TABLE 18: ETHIOPIAN BANKS' COLLATERAL REQUIREMENTS

Bank	Collateral Requirements
BOA	At least 100%, but lower for some exporters
CBE	Agricultural loans only: farmer's land use rights, with guarantees from regional governments
Awash Bank	120% for agriculture Lower requirements for exporters
Dashen Bank	100% to 200%
DBE	The proposed agricultural project
CBO	0 with USAID/govt. guarantees Share in the union for cooperative members

Sources: vice president of each bank

Asked whether their credit needs are currently met, all interviewees said no. Six of them said they needed larger and longer loans than what they have, primarily for investing in additional facilities and equipment. One coffee processor said he needs larger loans to enable him to purchase as much raw coffee as possible when it is available. He would also like longer loans to help him store coffee when the price is low and sell it when the price rises.

Asked whether they thought access to credit had changed at all for the agriculture sector over the last 10 years, 6 of the 7 borrowers interviewed said it had improved a little, while one thought access had declined a little. One borrower who had received a USAID-guaranteed loan went on to obtain a guaranteed loan from CBO. He commented that it has been extremely difficult for him to obtain a loan over the past 10 years and he was only able to do so because of the guarantees from USAID and the Ethiopian government.

Purchasing Power

Three borrowers (including one USAID beneficiary), all coffee processors, said that because the price of raw coffee has risen over the last 4 years, the purchasing power of borrowed funds is lower. Ten years ago, one said, he could buy a kilo of raw coffee for one birr. Now, that same kilo costs an average of 5.15 birr. The increase in loan sizes the processors have received has not kept pace with inflation, they say. Therefore, the processors either have to operate under capacity or purchase much of their raw coffee on credit from suppliers, who in turn raise the price of their raw coffee further to compensate for the delayed payment. One processor has even lost suppliers to other processors that are able to pay immediately.

> The agriculture sector is risky; so we apply the maximum collateral level to those borrowers.
> —Awash Bank representative

A fourth coffee processor, Yirgacheffe, echoed these concerns, but said that it has fared better than most because of government concessions. The union began directly exporting its coffee because the government allowed it to do so without obtaining another business license.[51] Therefore, the union makes more profit on its coffee. In addition, the government does not tax the

[51] According to the Ethiopian Chamber Business Registration Guidelines, "any person shall principally register only once even though he carries on different commercial activities in different regions."

union's profit and provides it with land "almost free of charge."[52] However, the union still operates below capacity because it lacks capital and 13 of its 22 member cooperatives do not have access to a bank from which they might obtain working capital. Therefore, these 13 are working below capacity. Yirgacheffe exported 1,100 tons of coffee in 2009, but it has the capacity to export 78,000 tons with sufficient working capital, said the coffee union's manager.

Constraints

The senior advisor at the FCC said that the percent of credit demand among cooperatives that is satisfied is very limited. He and other interviewees provided a variety of reasons why agricultural finance is still in its infancy.

The factor most mentioned was that cooperatives, cooperative unions, and individual farmers still lack sufficient collateral to qualify for the loans they need. Six borrowers, four banks, and the FCC highlighted this constraint as a significant depressant of access to finance for the agriculture sector. Since the Ethiopian Government does not permit private land ownership, farmers' potentially greatest asset cannot be used as collateral.

The Secretary General of the Bankers' Association's General Assembly told the evaluator that a major problem for financing agriculture in Ethiopia is that there is no standard of evaluating property held as collateral, resulting in huge variation in valuation. The association conducted a study and found that the same property was valued at 3 million birr at one bank, 1 million birr at another, and 5 million birr at a third bank. The association is addressing the problem by preparing a manual for valuing property. In addition, he said, there used to be a law requiring that property used as collateral must be notarized, but there is no existing institution to do the notarization. The Association prepared a draft amendment and the law was amended as requested in May 2009.

Closely related to the collateral constraint is that banks lack the capacity to assess the creditworthiness of agricultural borrowers and therefore rely on collateral to guard against the perceived riskiness of the agriculture sector. Four banks and three borrowers highlighted this lack of capacity. The Vice President/Operations at BOA said that Ethiopian banks do not use interest rates to manage risk because heavy regulation of the banking sector has stifled competition. Allowing foreign banks to enter the Ethiopian market, he thought, would force interest rates to fluctuate with increased competition and new ideas. Ethiopian bankers lack knowledge of risk management. For example, the NBE wanted to form a risk management unit that examines risk on a post-mortem basis, but risk management should be pro-active and the responsibility of every manager, he opined.

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52 The U.S. Department of State reported in 2007 that, "Investors engaged in manufacturing, agro-industrial activities or the production of certain agricultural products and who export at least 50 percent of their products or supply at least 75 percent of their product to an exporter as production input are exempt from income tax for five years." http://www.state.gov/e/eeb/ifd/2008/100861.htm

The vagaries of Ethiopian weather increase the riskiness of the agriculture sector, producing surpluses in some areas and shortages in others, depending upon the amount of rainfall and local capacity to irrigate.[53] There is only one insurance company that has begun to offer crop insurance; most will not touch agriculture, said both CBE and Dashen Bank. The one company, Nyala Insurance (based in Addis Ababa), reportedly offers weather insurance for agriculture, as well as Multi-Peril Crop Insurance[54].

> The commercial banks are making a lot of profit, so why should they finance a risky business?
> —National Bank of Ethiopia

Two cooperative union representatives, a government bank, and the FCC added that cooperatives still need training to help them produce more profitably and manage loans they receive. For example, one cooperative union manager said that with ACDI/VOCA's help, his cooperative obtained a contract with a New York-based company to export bird seed. However, the quality of the union's seeds failed the importer's quality tests and the union lost its contract. This quality problem, the manager said, is widespread in the Ethiopian agricultural sector. The FCC noted that cooperatives' management tends to be weak and the capacity of cooperative unions to provide services is limited. While some unions have accountants and marketing departments (including those the evaluator visited), capacity is limited because running such departments is expensive and the unions lack in-service training.

Two cooperative representatives and two banks told the evaluators that lack of rural infrastructure poses a serious problem to both cooperatives' capacity to produce and transport their products, as well as to banks' ability to reach agricultural producers. Ethiopian roads are poor, bridges are lacking, and electricity and telephone service are inexistent in much of the country. Farms lack access roads, and storage and transport facilities for products are in short supply.[55]

Related to these capacity and infrastructure problems, six interviewees said the Ethiopian Government does not do enough to support the agriculture sector.[56] Interviewees suggested the government take the following actions:

- Liberalize the financial sector to allow foreign banks into Ethiopia and therefore create more competition for borrowers
- Open the foreign exchange
- Increase transparency in the financial sector, including accurate tracking of borrowers' credit history
- Reduce bureaucracy at government banks to ensure cooperatives receive loans when they need them, without unreasonable delays
- Provide seed money to develop cooperative banks

[53] Government bank and FCC
[54] http://www.ethiopianreview.com/articles/9416
[55] DBE
[56] Four banks, three cooperatives, the FCC, and USAID.

- Guarantee private bank loans to the agriculture sector
- Provide technical assistance to farmers to help them develop management capacity
- One private bank suggested that the government follow the Chinese model of forcing investors into rural areas, while another referred to the Korean model, in which regional governments develop the land.

The NBE deputy director with whom the evaluator spoke provided a different perspective. Before allowing foreign banks into the country, he said, Ethiopia has to develop local banks' capacity. Asked who is providing this capacity building, he responded that as of the beginning of December 2009, the World Bank's Financial Sector Capacity Building Project has been working with private banks, government banks, and the NBE. The evaluator could not find any information on such a project in the World Bank's database, but it is possible that the information has not yet been entered. The Bankers Association mentioned a World Bank program helping banks to upgrade their payment systems. The government is also working with MFIs to help them develop into banks. The NBE deputy director added that the government does not have the capacity to subsidize agricultural lending and is not ready to interfere with banks' management. "The solution to increasing access to credit for the agriculture sector is the [USAID-funded] guarantee scheme," he concluded.

In 2008, the NBE put a cap on lending to control inflation, which affects all banks' lending to all sectors. Private bank representatives and a couple of cooperative representatives noted that the cap is a constraint to agricultural finance. According to the Deputy Director of Economic Research and Monetary Policy at the NBE, the cap began after increasing the reserve requirements and the interest rate failed to stem inflation. The cap covers all private and public banks, though the cap on the DBE is indirect because it borrows from the CBE. The policy places a limit on the total amount of outstanding loans in all commercial banks; individual bank limits are determined based upon the bank's market share, capital ratio, and deposit/loan ratio. The Deputy Director added that the NBE also leaves room for new banks to enter the market. Asked when the cap is likely to end, the Deputy Director said it will depend upon how the inflation rate changes, but the bank is planning to retain the cap until at least June 2010 (the end of the 2009-2010 fiscal year).

Looking Ahead

Evidence suggests that the market for agricultural finance is beginning to improve. As noted above, the cooperative representatives noted they need financing for investment projects now (e.g., warehouses, agro-processing facilities), which suggests that their basic finance needs have been met and they are now able to consider expansion.

The Ethiopian Government has been supporting export-oriented agriculture in recent years. The U.S. Department of State reported in 2007 that the government had established a loan fund of $174 million through DBE and provided land at low lease rates for "priority export areas such as floriculture, leather goods, textiles and garments, agro-processing and related products. An investor can borrow up to 70 percent of the cost of the project from this special fund without collateral upon presenting a viable business plan and a 30 percent personal equity."[57] Since coffee processors fit into this area, it is fair to assume that they have enjoyed easier access to loans in recent years. In addition, Dashen Bank's recent focus on floriculture may be related to the extra support this sector is receiving.

Another positive development in agricultural finance has been the emergence of Savings and Credit Cooperatives (SCCs), which ACDI/VOCA helped start under the ACE program[58]. The FCC estimates that 40 agricultural SCCs[59] have sprouted over the last 5 years. Each member of the cooperative must save for at least 6 months, after which the member can take a loan equal to ¾ of what they saved.[60] Interest rates are comparable to private banks, and the SCCs pay interest to depositors. Most SCC loans carry tenors of 1 year and none is longer than 2 years. The FCC has concluded that a federation of urban and rural cooperatives is needed because 40 percent of the SCCs are in Addis Ababa. The FCC completed a feasibility study for the federation in September 2009 and intends to implement the project in the coming year.

Large, international retailers have begun supporting the coffee sector. For example, in 2006, Starbucks and EcoLogic Finance, now called Root Capital, provided a $400,000 loan to Sidama Coffee FCU. According to Root Capital's website, in 2004, Starbucks provided a $2.5 million loan to Root Capital to support Ethiopian smallholder coffee farmers.[61] In early 2006, Root Capital reported that it had teamed with USAID to provide credit to Ethiopian coffee farmers. [62]

Officers from both CBE and the CBO said they believe that with close monitoring, agriculture is a very profitable lending market. Demand is high and product prices are increasing. Export demand is high. Cooperative unions, the director of CBE explained, do not default because they want development funds to continue flowing. Large companies can be a problem because they use their loans for different purposes than those for which they applied for the funds. Small farmers, on the other hand, buy what they say they need and are therefore more trustworthy.

Last year, the Ethiopian government established a commodities exchange to stabilize prices of agricultural products.[63] Opened in April 2008, the exchange provides its 450 agriculture members with market information, an internal dispute mechanism, and rules for warehousing, trading,

57 Ibid.
58 ACDI/VOCA representative
59 SCCs in urban areas began operating 50 years ago.
60 FCC
61 http://www.rootcapital.org/newsdocs/press.html
62 http://www.starbucks.com/aboutus/pressdesc.asp?id=713
63 Awash Bank

payments, delivery, and business conduct. As of August 2009, the exchange was trading in maize, wheat, beans, sesame, and coffee. [64]

Awash Bank's VP of Credit and Risk Management said that the International Finance Corporation (IFC) is supporting a warehouse financing system and Technoserve is providing guarantees to cooperatives and established coffee washing centers. The organization provides business advice and markets for poor entrepreneurs in Ethiopia and other countries.[65]

SUMMARY OF CONCLUSIONS

Output-Level Conclusions

BOA wanted to lend to the agriculture sector because it plays a major role in the country and economy and because export sub-sectors generate desired foreign currency. However, the bank had no previous experience lending to the sector and perceived it as risky since potential borrowers were not able to offer acceptable collateral. The guarantees provided the bank the comfort it needed to engage with the sector.

BOA used the LPGs to subsidize collateral requirements for guaranteed borrowers.

BOA adopted a fairly open approach to marketing the guarantee program to potential borrowers, consistent with USAID/Ethiopia's and ACDI/VOCA's active marketing efforts. The active approach is also consistent with the Bank's and USAID's desire to support agricultural cooperatives and build their business capacity and therefore seems appropriate. To counteract potential moral hazard, the bank devoted more management resources to the USAID-guaranteed portfolio than it normally does to its other loans. BOA's success in securing a high repayment rate among its borrowers under the USAID guarantees likely results both from its own management approach as well as ACDI/VOCA's efforts to build the capacity of borrowers.

Between 2000 and 2008, the USAID guarantees were responsible for increasing the bank's lending to the agriculture sector from 0 to an average of 2.3 percent of its total value of loans disbursed during the period.

The fact that the coffee sector received a far higher share of the DCA guarantee pool than was allowed according to the guarantee agreement likely reflects BOA's desire to receive foreign currency through supporting an active export commodity.

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[64] http://www.ifpri.org/pressrelease/ethiopias-commodity-exchange-opens-its-doors and http://www.ecx.com.et/CompanyProfile.aspx#HEW

[65] www.technoserve.org

Since BOA was unwilling to lend to potential borrowers with insufficient or no collateral without the USAID guarantees, those guarantees enabled these borrowers to obtain loans larger than they would otherwise have received, if they could have qualified for any loan at all. The USAID guarantees allowed BOA to reduce collateral requirements by at least 50 percent for guaranteed borrowers.

BOA clearly prefers to grant loans with tenors of 3 years or less, which is consistent with its guaranteed loan portfolio. While some cooperatives continue to need short-term loans, others are growing to the point of needing investment loans.

USAID-guaranteed borrowers received preferential interest rates compared to BOA's standard range, but these rates have been average compared to other banks' standard rates because interest rates in general do not vary much from bank to bank. The reason for this conformity is that Ethiopian banks look to the CBE for guidance on setting interest rates and CBE bases its rates on the NBE's minimum deposit interest rate.

Poor repayment history has biased Ethiopian banks against lending to the agriculture sector. USAID's guarantees gave BOA the comfort it needed to engage the sector. In fact, through careful management, BOA's USAID-guaranteed portfolio has performed better than its overall portfolio, in terms of arrears.

Outcome-Level Conclusions

The USAID guarantees encouraged BOA to enter the agriculture finance sector and the bank will likely continue to lend to this sector, but only to exporters for the near future. Ten years after the beginning of its first MSED guarantee, BOA is still reluctant to invest much in the agriculture sector. As discussed under Impacts, this reluctance is widespread among Ethiopian banks.

The USAID guarantees introduced BOA to agricultural exporters, which BOA discovered can be valuable conduits of foreign currency, a desirable commodity for the bank. BOA continued to lend to 20 percent of the formerly USAID-guaranteed borrowers because they were profitable. At least 2 and perhaps as many as 15 USAID beneficiaries went to the CBO because it offers better terms for cooperative unions. BOA, with USAID's help, directly increased access to finance for seven borrowers.

Loan terms have changed somewhat, as some former USAID-guaranteed borrowers received preferential collateral requirements, longer loans, and larger loans.

BOA has continued lending to the agriculture sector in general and the percent of its portfolio devoted to agriculture has steadily increased as it has discovered the profitability of some agricultural sub-sectors. However, it is not willing to lend to borrowers with insufficient collateral or who lack solid repayment histories with other banks. In addition, BOA will likely continue lending only to agricultural exporters because it believes they are the most profitable members of the agriculture sector. This practice is to be expected for a private, for-profit business.

Impact-Level Conclusions

All banks have increased their lending to the agriculture sector. Government-owned banks' behavior results from government policy focusing increasingly on supporting agriculture since 2000. The attractiveness of certain Ethiopian agricultural exports have motivated private banks to engage increasingly with the sector, along with a professed desire to support a sector that plays a large role in the country's economy. Exportable crops are profitable and generate foreign currency, which every bank interviewed is eager to have.

CBO has made significant advances in the agricultural lending market, out of a desire to help cooperatives.

The USAID guarantees to BOA did not play any perceptible role in other banks' decisions to lend to the agriculture sector. The Ethiopian banking sector in general does not see BOA as a leader or role model in this sector, nor do they know much about BOA's experience with the guarantee or its forays into the agriculture finance market. As explained above, all interviewed banks have other reasons for devoting more investment resources to agriculture.

Loan access has improved somewhat over the last 10 years, especially in the last 5, mainly because of the efforts of the government banks and the CBO, which provide collateral-free loans to agricultural exporters and cooperatives. Other private banks lower collateral requirements for some exporters to increase their foreign currency holdings. Some agriculture sector borrowers have increased their capital and are able to qualify for larger loans with their own collateral. Government tax breaks and other concessions to export-oriented sectors and agro-processors are likely responsible for the growth of coffee cooperatives, especially. This government support, in turn, likely makes supported borrowers more attractive to private banks. However, inflation is a huge problem with which loan amounts have not appeared to keep pace.

Collateral requirements have lessened for some exporters and borrowers from banks with guarantees of some kind (e.g., government-backed, member-backed), but remain too high for most new borrowers. On the other hand, recent growth of SCCs suggests that more new borrowers at the farmer level are gaining access to credit.

The DCA guarantee clearly influenced BOA and Dashen Bank to increase lending to the agriculture sector. However, no interviewees cited these banks' lending behavior as an impetus for changes in other banks' lending behavior. The agriculture finance sector appears to be still largely underserved and increases in lending have resulted from food price increases on the agricultural market and government policies.

Ethiopia continues to lack the capacity and resources to make great strides in development of the agriculture finance market.

Considering the menagerie of players in the Ethiopian agriculture sector, the government policies and world prices affecting financing for the sector, it is unlikely that the USAID guarantees have had a perceptible impact on access to finance for the sector. On the other hand, USAID can take credit for increasing access to credit for borrowers who obtained their first loans through the DCA guarantees and subsequently received non-USAID-guaranteed loans.

Annexes

Annex I: Evaluation Framework and Indicators

Evaluation of DCA and MSED Operations in Ethiopia (Bank of Abyssinia): Evaluation Framework

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
OUTPUT LEVEL (Loans Disbursed, Additionality…):			
1a. Why did Bank of Abyssinia enter into the guarantee? 1b. How did Bank of Abyssinia implement its loan guarantee programs that was different from implementation of its existing portfolio (e.g., marketing campaigns, changed terms, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why?	(1) DCA documents: Risk assessments, Action Packages, Legal Agreements, biennial reviews, Trip Reports (1) CMS data (1) or (2) BOA Annual Reports (2) BOA strategy documents 1998-2009 (if possible) (2) Credit manuals from BOA (2) Relevant Bank marketing materials and staff training documents (2) Mission staff (2) Bank staff	(1) Review of data and documents in Washington/DCA; interviews with DCA staff (1) & (2) Interviews of cognizant USAID staff (2) Review of bank documents (2) Guided interviews with bank staff	DCA use: Purposes 2 & 4 above and to enhance discussions with potential guarantee partners; to enhance the training that DCA provides to guarantee partners, missions, et al. Other Comments: this is primarily *descriptive* for each guarantee partner.

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
2a. What was the additionality of the guarantee? (i.e., comparing indicators for loans under the guarantee with the rest of the bank's portfolio AND with other banks' loan terms for the agriculture sector, if possible)? Indicators include: Value of loans to target sectors and regions in total bank portfolio Number of loans to target sectors and regions in total bank portfolio Average (or representative) loan size and frequency distribution Average (or representative) loan tenor Rules for collateral requirements (including types of collateral, % relative to loan size) % of covered borrowers who were new clients Average interest rate Number and value of loans per borrower	(1) CMS (1) DCA biennial reviews (1) DCA portfolio managers (2) Bank managers/staff (2) Bank loan data—baseline and nonguaranteed lending to same sectors/regions (1) or (2) Bank annual reports (1) or (2) Industry/Central bank studies / interviews (2) Mission technical officers, CTOs and TA providers	(1) Analysis of CMS data (1) Documents review (1) Interviews of cognizant DCA staff (2) Guided Interviews of partner bank staff (2) Analysis of bank electronic files on borrowers covered by guarantee (either sample of or full DCA loan portfolio)	DCA use: To report on loans to stakeholders and Purposes 3 &4 above. Other Comments: Question 2a is *descriptive* and *comparative* for each guarantee partner, addressing what happened with loans under guarantees vs. what would likely have happened without the guarantees. Question 2b is *explanatory*, i.e., the extent to which the DCA guarantees influenced change. What we learn can affect what DCA does when talking to potential and actual guarantee partners, e.g., asking them what they would change with a guarantee; encouraging banks to do x, y, or z; and so on in discussions; DCA TA and training to banks; and DCA encouragement of missions to provide TA and training aimed at increasing positive bank policies and behavior.

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
2b. What was the extent to which the DCA guarantee influenced changes in partner bank portfolio characteristics?			
OUTCOME LEVEL (Partner Bank Behavior Change):			
3a. To what extent were desired outcomes achieved so far, as intended in Action Package and/or Legal Agreement, outside the protection of the MSED / DCA guarantees (i.e., provide credit to agricultural cooperatives, Livestock marketing groups, Private sector agro-processors, Private sector commercial horticulture producers for marketing, equipment, investment in specific regions/sectors)? What is the potential for sustainability of these outcomes? Did the bank continue lending to guaranteed borrowers without a guarantee? Did the bank start lending to	(1) CMS data review (1) DCA documents: Risk assessments, Action Packages, Legal Agreements, biennial reviews (2) Mission documents (2) Bank data on nonguaranteed lending to same sectors/regions (2) Bank annual reports (2) Mission/ contractor/ staff (2) Bank staff	(1) Analysis of CMS data (1) Documents review (2) Interviews of cognizant Mission / contractor staff and other stakeholders (2) Guided Interviews of partner bank staff (2) Analysis of bank electronic files on borrowers covered by guarantee (either sample of or full DCA loan portfolio)	DCA use: Purposes 2, 3 & 4 above; to identify ways to achieve desired outcomes when dealing with potential guarantee recipients; to enhance the training that DCA provides to guarantee partners, missions, et al. Other comments: Question 3a. is both *descriptive* and *comparative* (actual outcomes achieved through guarantees vs. intended outcomes). Question 3b is *explanatory* in nature (to identify factors associated with why desired outcomes were achieved or not). Question 3c would be *descriptive*, and cross-cutting.

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
similar borrowers without a guarantee? Does BOA have guarantees from other donors/sources? If so, what are the terms? Are the same borrowers covered? Over the life of the guarantees and afterward, how much did the agriculture sector portfolio grow from start of the guarantees, as a percentage of the overall portfolio? 3b. What factors at the partner bank level can be associated with achievement of desired outcomes (e.g., TA; bank staff training; revised bank strategy, procedures and structure; new management; guarantees from other sources, etc.)?			
IMPACT LEVEL (Market Demonstration Effect):			
4a. Did other, non-partner banks initiate or increase lending to the sectors / regions (agr./cooperative lending) targeted by the	(1) and (2) Sector/banking reports and other secondary data (e.g., from Internet) (2) BOA managers/staff	(1) and (2) Documents review (2) Interviews of	DCA use: Purposes 1 & 2. Other comments: These questions will be answered qualitatively, for the most part, citing

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
guarantees? 4b. If so, what role did the MSED/DCA guarantees play as a demonstration model?	(2) Ethiopian Bankers Association (2) USAID staff and TA providers (2) Competitor banks (Oromia, Dashen, Awash) (2) Development Bank of Ethiopia (2) Commercial Bank of Ethiopia (2) BOA borrowers, both current and former	cognizant USAID / other donor staff /other stakeholders (2) Guided interviews of partner bank staff (2) Guided interviews / survey of BOA borrowers (2) Guided interviews of competitor bank staff	available sectoral data as appropriate.
5a. Did loan access and/or terms change for borrowers within the targeted sectors/regions overall? What happened to BOA borrowers under the guarantee after their loans ended? Are they receiving credit? From where? 5b. If so, how and why? 5c. What role did the DCA guarantee play as a demonstration model?	Same as for Question 5 (2) BOA borrowers—both current and former 2) Association of cooperatives (2) National Bank of Ethiopia (2) ACDI/VOCA (2) USAID/Ethiopia advisor to the Ethiopian Treasury (2) Federal Cooperative Commission	Same as for Question 5.	Same as for Question 5.

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
QUESTIONS THAT APPLY TO ALL THREE LEVELS—OUTPUT, OUTCOME AND IMPACT:			
6a. What are the exogenous factors (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, other donor behavior, others?) that have affected the agricultural finance sector? How have they done so? 6b. Have the exogenous factors affected the performance of the DCA guarantee(s) (i.e., at output, outcome and impact levels)? If so, how?	(1) Review of donor or research documents / web sites (2) Cognizant USAID / contractor staff / other donor representatives (2) BOA managers/staff (2) Competitor bank staff (2) Ethiopian Bankers Association (2) National Bank of Ethiopia	(1) Documents review (2) Interviews of cognizant USAID / contractor staff (2) Guided interviews of partner bank staff (2) Other donor / key stakeholder interviews (2) Guided interviews of other banks / central bank	DCA use: To set in context the Evaluation findings for Questions 1 – 6.

Evaluation of DCA and MSED Operations in Ethiopia (Bank of Abyssinia): ***Indicators***

The following table presents qualitative and quantitative indicators for assessing the performance of the DCA and MSED guarantees at the output, outcome, and impact levels. Indicators correspond to evaluation questions presented in Table 1. Note that some of those evaluation questions are more descriptive than directly related to performance of the guarantees, and thus have no associated indicators.

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
OUTPUT LEVEL		
1a. How did the DCA guarantees fit into Bank of Abyssinia's ongoing strategy? What market potential did the DCA guarantee help open for the partner bank? 1b. How did Bank of Abyssinia implement its loan guarantee programs (e.g., marketing campaigns, changed terms, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why?	1 a. Qualitative difference between Bank of Abyssinia's articulated business strategy and the guarantee objectives Date of commencement of lending to agricultural cooperatives Number and percent of guaranteed/nonguaranteed loans to the target sectors, by year Value of lending to target agricultural cooperatives within overall bank portfolio, by year 1.b Qualitative description of differences between program implementation procedures and "business as usual" implementation procedures Qualitative description of differences between assessment criteria used for MSED/DCA guaranteed and nonguaranteed loans Qualitative description of loan approval and administration procedures between MSED/DCA guaranteed and nonguaranteed loans Qualitative description of marketing campaigns, staff structure, communications structure, etc.	Comparative analysis (pre / post, with / without DCA guarantee) Statistical calculation (number, percent) Content pattern analysis of documents, interview notes
2a. What was the additionality of the guarantee? (i.e., comparing indicators for loans under the guarantee	BOA loan portfolio pre, during, post MSED and first DCA guarantees, by sector and year if possible	Comparative analysis—pre

with loans to the bank's customary/nonguaranteed sectors AND with other banks' loan terms for the agriculture sector, if possible)? 2b. What was the extent to which the DCA guarantee influenced changes in partner bank portfolio characteristics?	Value of loans to target sectors and regions in total bank portfolio Number of loans to target sectors and regions in total bank portfolio Average (or representative) loan size and frequency distribution Average (or representative) loan tenor Rules for collateral requirements (including types of collateral, % relative to loan size) % of covered borrowers who were new clients Average interest rate Number and value of loans per borrower % arrears / NPLs in target sector compared to overall portfolio, by year if possible	vs. post agreements Statistical analysis (value, mean, median, minimum and maximum)
OUTCOME LEVEL		
3a. To what extent were desired outcomes achieved so far, as intended in Action Package and/or Legal Agreement, outside the protection of the MSED / DCA guarantees (i.e., provide credit to agricultural cooperatives, Livestock marketing groups, Private sector agro-processors, Private sector commercial horticulture producers for marketing, equipment, investment in specific regions/sectors)? What is the potential for sustainability of these outcomes? Did the bank continue lending to guaranteed borrowers without a guarantee? Did the bank start lending to similar borrowers without a guarantee? Does BOA have guarantees from other donors/sources? If so, what are the terms? Are the same borrowers covered? Over the life of the guarantees and afterward, how	Bank of Abyssinia portfolio performance outside of MSED/ DCA guarantee coverage, Value of loans to target sectors and regions in total bank portfolio Number of loans to target sectors and regions in total bank portfolio Average (or representative) loan size and frequency distribution Average (or representative) loan tenor Rules for collateral requirements (including types of collateral, % relative to loan size) % of covered borrowers who were new clients Average interest rate Number and value of loans per borrower % arrears / NPLs in target sector compared to overall portfolio, by year if possible	Comparative analysis—pre vs. post DCA agreement, between CIB locations Statistical analysis (value, mean, median, minimum and maximum) Content pattern analysis of documents, interview notes

much did the agriculture sector portfolio grow from start of the guarantees, as a percentage of the overall portfolio? 3b. What factors at the partner bank level can be associated with achievement of desired outcomes (e.g., TA; bank staff training; revised bank strategy, procedures and structure; new management; guarantees from other sources, etc.)?	Qualitative description of differences between agricultural loan implementation procedures, pre- and post- MSED and DCA agreements Percent of Bank of Abyssinia loans to each type of agricultural borrower (i.e., sector, region)	
IMPACT LEVEL		
4a. Did other, non-partner banks initiate or increase lending to the sectors / regions (agr./cooperative lending) targeted by the guarantees? 4b. If so, what role did the MSED/DCA guarantees play as a demonstration model?	Number of other, non-partner banks that initiated lending to the sectors/regions targeted by the guarantees Number of other, non-partner banks that increased lending to the sectors/regions targeted by the guarantees Percent of other, non-partner banks and industry experts that name Bank of Abyssinia's activities as an important reason for increasing lending to these sectors/regions Percent of borrowers under the guarantees who have received financing from other banks Percent of competitor banks' portfolios in the agriculture sector Degree of similarity/difference between (non-USAID guaranteed) agricultural loan terms within other banks and those within BOA	Comparative analysis by region, pre and post the DCA agreement Content pattern analysis of interview notes
5a. Did loan access and/or terms change for borrowers within the targeted sectors/regions?	Same as above	Statistical analysis (value,

What happened to BOA borrowers under the guarantee after their loans ended? Are they receiving credit? From where? 5b. If so, how and why? 5c. What role did the DCA guarantee play as a demonstration model?	Percent of covered borrowers under the guarantees who say they have continued to receive credit Percent of covered borrowers who say loan terms have improved, disaggregated by existing and former BOA clients Changes in loan terms for agricultural cooperatives within other, non-partner banks Qualitative description of factors named as important in increased access to credit (sources: non-partner financial institutions, borrowers, industry experts) Longitudinal data on lending to the agriculture sector, % of cooperatives that have access to credit; disaggregated by region (if possible)	mean, median, minimum and maximum) Content pattern analysis of interview notes Comparison analysis
EXOGENOUS FACTORS		
6a. What are the exogenous factors (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, other donor behavior, others?) that have affected the agricultural finance sector? How have they done so? 6b. Have the exogenous factors affected the performance of the DCA guarantee(s) (i.e., at output, outcome and impact levels)? If so, how?	Interest rate spread between what BOA has to pay for funds from the central bank and what it charges its customers.	Statistical analysis

Annex II: Summary of Indicators

NOTE: This table contains only the quantitative indicators. Qualitative indicator values are scattered throughout the report.

Indicator Indicator Value, December 2009	Outputs
Date of commencement of lending to agricultural cooperatives 2000	
Nonguaranteed: no data	Value of lending to target agricultural cooperatives within overall bank portfolio, by year See below
Value of loans to target sectors and regions in total bank portfolio See below (nonguaranteed lending data by sector unavailable)	Number of loans to target sectors and regions in total bank portfolio USAID-Guaranteed Loans
Amhara: 9	Oromia: 13
SNNP: 31	n.a.: 18
Nonguaranteed Loans, 2006, 2007, 2008	Amhara: 1,118
Oromia: 761	SNNP: 762
Tigray: 334	(data unavailable for other years and unavailable by sector)
Average Loan Size and Frequency Distribution Guaranteed: $176,185 average	See below for frequency distribution
Data unavailable for nonguaranteed loans	Average Loan Tenor Guaranteed: 10 months
Nonguaranteed: most 3 years or fewer	Collateral Requirements Guaranteed loans: 50%
Nonguaranteed loans: at least 100%	Types of acceptable collateral: property (i.e., vehicles, buildings, etc.)
% of covered borrowers who were new clients Unknown; VP thinks most	Average interest rate Guaranteed: 8.6%
Nonguaranteed: average unknown, but range since 2004 has been 7-13%	
Value: $329,187	(Nonguaranteed loan data not available)
% NPLs Guaranteed: 1%	Nonguaranteed: between 4% and 11% (see below)
Outcomes	Value of loans to target sectors and regions in total bank portfolio See below.
Number of loans to target sectors and regions in total bank portfolio Unknown, but see stats from small sample in Outcomes chapter	Average (or representative) loan size and frequency distribution Unknown, but see stats from small sample in Outcomes chapter
Average (or representative) loan tenor Unknown, but see stats from small sample in Outcomes chapter	Rules for collateral requirements (including types of collateral, % relative to loan size) At least 100%, but can be lower for export items

% of covered borrowers who were new clients VP says most	Average interest rate -
Number and value of loans per borrower 7-13% for all loans, 2004 through 2009	% arrears / NPLs in target sector compared to overall portfolio, by year if possible Unknown for just agriculture
Percent of Bank of Abyssinia loans to each type of agricultural borrower Unknown	Number of other, non-partner banks that initiated lending to the sectors/regions targeted by the guarantees Initiated: 2
	Number of other, non-partner banks that increased lending to the sectors/regions targeted by the guarantees Increased: 5
Percent of other, non-partner banks and industry experts that name Bank of Abyssinia's activities as an important reason for increasing lending to these sectors/regions 0%	Percent of borrowers under the guarantees who have received financing from other banks Overall: unknown.
Among those we interviewed: 6 of 7; 7th has a loan with BOA	Percent of competitor banks' portfolios in the agriculture sector See below.
Percent of covered borrowers under the guarantees who say they have continued to receive credit Of those we interviewed, 100% (7 of 7)	Percent of covered borrowers who say loan terms have improved, disaggregated by existing and former BOA clients None
Interest rate spread between what BOA has to pay for funds from the central bank and what it charges its customers. N/A; BOA does not borrow funds from the central bank	
Indicator Indicator Value, December 2009	Outputs
Date of commencement of lending to agricultural cooperatives 2000	Number and percent of guaranteed/nonguaranteed loans to the target sectors, by year Guaranteed: 71 total
Nonguaranteed: no data	Value of lending to target agricultural cooperatives within overall bank portfolio, by year See below
Value of loans to target sectors and regions in total bank portfolio See below (nonguaranteed lending data by sector unavailable)	Number of loans to target sectors and regions in total bank portfolio USAID-Guaranteed Loans
Amhara: 9	Oromia: 13

TABLE 19: BOA Lending to Agriculture, 1999-2009 (birr, mlns.)

	2001	2002	2003	2004	2005	2006	2007	TOTAL
USAID-guaranteed loans disbursed	5	0.4	4.4	14.4	19.6	20.6	9.4	73.8
All loans disbursed	270.5	159.6	203.5	215.5	424.2	885.9	982.4	3,141.6
Percent of total loans disbursed	1.8%	0.3%	2.2%	6.7%	4.6%	2.3%	1.0%	2.3%

Sources: CMS and BOA Annual Reports

TABLE 20: Value of BOA Guaranteed and Nonguaranteed Lending, by Region (birr, mlns.)

	Nonguaranteed Lending	USAID-guaranteed lending
Amhara	182.77	5.06
Oromia	81.3	10.25
SNNP	280.38	47.70
Tigray	95.39	-

Sources: CMS and BOA

Data are for 2006 through 2008 only, as BOA was not able to provide nonguaranteed lending data for other years.

TABLE 21: Value of BOA Guaranteed Lending, by Sector (birr, mlns.)

	Sector				
Region	Coffee	Food Grains	Horticulture	Livestock and Livestock Products	**TOTAL by Region**
Amhara	0	4.93	0	3.35	**8.27**
Oromia	5.17	5.13	0.20	5.15	**15.65**
SNNP	58.34	11.50	0	0	**69.84**
TOTAL by Sector	**63.51**	**21.56**	**0.20**	**8.50**	**93.77**

Sources: CMS and BOA

TABLE 22: Frequency Distribution of USAID-guaranteed Loans

	Under $50,000	$50,000 to $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $300,000	$300,000 to $500,000	Above $500,000
number of loans	12	20	14	6	7	4	8

Source: CMS

	1999	2000	2001	2002	2004	2005	2008	2009
Nonguaranteed NPLs	4%	3%	3%	19%	11%	7%	7%	11%

TABLE 23: BOA Nonguaranteed Lending by Sector and Fiscal Year (birr, mlns.)

Sector	1999	2000	2001	2002	2004	2005	2008	2009
Industry	18.14	13.80	31.964	24.298	57.345	97.055	422.275	425.879
Construction	12.72	12.55	29.788	39.162	95.645	138.763	429.863	418.167
Domestic Trade & Services	90.88	220.66	265.188	202.061	217.939	299.484	769.053	755.19
Agriculture & Exports	5.36	9.19	13.532	14.718	97.967	119.116	259.187	287.209
Imports	30.24	73.97	79.175	68.532	192.288	270.273	409.206	310.451
Transportation	0.00	80.74	139.24	146.393	97.718	89.707	174.094	150.954
Merchandise	28.17	32.70	42.925	25.757	49.692	74.423	150.777	69.565
Advance against import bills	59.10	57.32	60.533	40.209	48.993	50.672		
Advance against export bills	2.21	3.58	2.47	2.109	7.133	10.009		
Personal loans	0.20	0.53	1.9	1.55	4.497	4.408	6.455	18.957
TOTAL	**247.01**	**505.03**	**666.715**	**564.789**	**869.217**	**1153.91**	**2620.91**	**2436.372**

Source: BOA Annual Reports

TABLE 24: % of competitor banks' portfolios in the agriculture sector, 2001-2007

Agricultural Lending as % of total lending							
	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
CBE	24%	32%	22%	19%	29%	38%	31%
DBE	30%	47%	56%	38%	53%	51%	71%
Awash	1%	4%	3%	0%	3%	7%	3%
Dashen	0.32%	0%	4%	4%	4%	1%	2%
Wegagen	1%	3%	1%	1%	2%	2%	3%
Nib	0%	0.24%	0.08%	1%	1%	0%	5%
CBO						74%	73%

Source: National Bank of Ethiopia, via USAID/Ethiopia

Annex III: Resources Used

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Annex IV: Final Trip Schedule

Monday, December 7, 2009

Time	People/Organization	Location	Notes
10:30-12:00	BEAT Staff	USAID	
12:00-2:00 p.m.	Lunch		
2:00-4:00 p.m.	Abyssinia officials	Bank of Abyssinia	

Tuesday, December 8, 2009

Time	People/Organization	Location	Notes
10:00-12:00	ACDI/VOCA		
12:00-2:00 p.m.	Lunch		
2:00-4:00 pm.	Dashen Bank		

Wednesday, December 9, 2009

Time	People/Organization	Location	Notes
9:00-10:00 a.m.	Cooperative Bank of Oromia		
11-12:30	Vice President of Awash Bank		
Afternoon	Meeting with Becho-Wolisso Cooperative	Approx. 1-1/12 hrs out of town	

Thursday, December 10

Time	People/Organization	Location	Notes
9:00-10:00 a.m.	Commercial Bank of Ethiopia, Mr. Assefa—Credit VP		
11:00-12:00	Federal Cooperative Commission		
Afternoon	Ambo Cooperative, Mr. Kassaye 0911-894-149	Approx. 1-1/12 hrs out of town	

Friday, December 11

Time	People/Organization	Location	Notes
8:30-9:30 a.m.	Development Bank of Ethiopia, Mrs. Wesnbet, Credit VP		
10:30-11:30 a.m.	Dereje Degefu, Secretary General of Bankers Association of Ethiopia		
2:30-3:30 p.m.	National Bank		
4:00-5:00	French Development Agency, Clair Coucheme,	WONGEL Building,	

p.m.	Project Manager	Gotera-Beklobet Rd.	

Monday, December 14

Time	People/Organization	Location	Notes
Mid-morning	Drive to Hawassa	Hawassa	

Tuesday, December 15

Time	People/Organization	Location	Notes
All day	Interview with Hawassa Branch Manager; visits to two coffee processors	Area around Hawassa	

Wednesday, December 16

Time	People/Organization	Location	Notes
Morning	Interviews with BOA clients	Hawassa	
Evening	Follow-up meeting with Branch Manager	Hawassa	

Thursday, December 17

Time	People/Organization	Location	Notes
8:00-12:30	Drive to Addis Ababa		
2:00-3:00 p.m.	National Bank's Research Dept.		

Friday, December 18

Time	People/Organization	Location	Notes
	Follow-up meeting with BOA	BOA HQ	
	Follow-up meeting with Fasika Jiffar	Addis Ababa	

Annex V: Interviewees

<u>Banking Sector</u>	
Asfaw Alemu	Vice President of Operations Management, **Dashen Bank**
Belete Waqbeka	Manager, Credit and Risk Management Department, **Cooperative Bank of Oromia**
Mesenbet Shenkute	Vice President, Credit Service, **Development Bank of Ethiopia**
Dereje Degefu	General Secretary, **Ethiopian Bankers Association**
Assefa Tefera	Director—Business and Corporate Customers Relationship Management, **Commercial Bank of Ethiopia**
Getahun Nana	Assistant Director, Supervision Directorate, **National Bank of Ethiopia**
Tefera Lemma	Deputy Director for Economic Research and Monetary Policy, **National Bank of Ethiopia**
Tseyay Shiferaw	VP of Credit and Risk Management Department, **Awash International Bank**
<u>TA Provider</u>	
Sileshi Bogale	Senior Marketing Advisor, ACDI/VOCA
<u>USAID</u>	
Kofi Owusu-Boakye	Financial Management Specialist, EGAT/DC
Joseph Obi III	Portfolio Management Team, EGAT/DC
Randy Chester	Deputy Chief BEAT (Business, Environment, Agriculture & Trade), USAID/Ethiopia
Daniel Moore	Office Chief, BEAT, USAID/Ethiopia
Fassika Jiffar	Senior Micro, Small, and Medium Enterprise Specialist, BEAT, USAID/Ethiopia
<u>Bank of Abyssinia</u>	
Anteneh Assefa	Vice President of Operations, Bank of Abyssinia
Ato Getahun	Branch Manager, Hawassa
Dereje Kebede	Credit Officer
Gossaye Yohannes	Credit Officer
Lelise Temesgen	Credit Manager
Tesfaye Abebe	Branch Manager
Tariku Duko	Security Supervisor, Hawassa Branch
<u>Cooperatives/Unions</u>	
Dejene Hirphaa	General Manager of Becho-Wolisso FCU
Kirub Alemayehu	Senior Cooperative Promotion Expert, Federal Cooperative Agency
Mr. Kassaye	General Manager of Ambo FCU
Mr. Takele	Manager of Yirgacheffe FCU (0911-21-0468)
Manager and Owner	Yirgacheffe coffee station
Cooperative Manager	Yirgacheffe coffee cooperative
Secretary	Yirgacheffe Cooperative Union
Chairperson	Yirgacheffe coffee cooperative
Mr. Tariko	Tariko & Friends coffee processors
Hilye Amarro	Owner, Hilye Amarro coffee processors
<u>Other Donors</u>	
Claire Cocheme	Project Officer, Agence Française de Développement

Annex VI: Interview Guides

TA Providers Interview Guide

What is your position at the French Development Agency? For how long have you been working here?

What does the AFD do with the agriculture sector in Ethiopia?

Questions 5 and 6

1. I understand from USAID that you were considering providing a guarantee program. Could you please tell me about it?
    a. Has it begun? When?
    b. Who are the recipients of the guarantees?
    c. Who are the beneficiaries?
    d. What are the guarantees for?

2. How did you decide to develop a guarantee project?
    a. How is it structured?
    b. What model(s) did you use to create the structure?
    c. (If not already answered) Did the USAID guarantee program influence at all the development of your guarantee program? How?

3. What have been the results of your guarantee program so far?

4. Have any banks begun or increased lending to the agriculture sector since 1999? Which ones?

5. Which banks are the leaders in providing credit to this sector?

6. Why do you think banks have begun/increased lending to the agriculture sector?

7. What constraints do banks face in lending to the agriculture sector?

8. How would you characterize the current access to credit for agricultural organizations (coops, farmers, agro-processors, etc.)?

    a. How has access changed over the past 10 years?
    b. To what do you attribute these changes?

9. What are the main factors impacting access to credit for the agriculture sector? (positively/negatively)
10. What more could be done to improve access to credit for the agriculture sector in Ethiopia?

National Bank of Ethiopia Interview Guide

Please describe your position and role within the National Bank of Ethiopia. For how long have you been working here?

<u>Lending Environment</u>

1. What are the Bank's rules for minimum collateral requirements?
   a. Interest rates?
   b. Loan terms?

2. Could you provide me with historical data on the inter-bank lending rate in Ethiopia?

3. Perhaps you could give me some background on agricultural cooperatives' access to credit in Ethiopia.

   a. Which bank was the first to offer agricultural lending? When?

   b. Have any banks initiated or increased lending to the agriculture sector since 1999? If so, which ones? To what do you attribute these changes?

   c. Which banks are currently the most active in providing credit to agricultural cooperatives?

   d. Could you provide me with longitudinal data on agricultural lending over time (i.e., amount, terms and conditions)? IF NOT: Do you think that, generally, interest rates, loan tenors, or collateral requirements for agricultural lending have changed much over time?

   e. Do you have any data on agricultural lending by microfinance institutions?

   f. Do you think that agricultural cooperatives have more, less, or about the same access to credit now than they did 10 years ago? Please explain.

4. I understand that the Bank put a freeze on lending for awhile. What kind of lending/banks does it cover?
   a. How is the cap for each bank determined?
   b. When do you think the cap will end?

5. Does the National Bank have any regulations specific to agricultural lending?

6. What are the key constraints to cooperatives' access to credit?

7. Are you aware of the loan portfolio guarantees USAID has provided to Bank of Abyssinia to support lending to the agriculture sector? If so, what impact do you think these guarantees have had on the agricultural credit market (supply and demand)?

8. Are you aware of any data on agricultural lending by institutions that are not banks (i.e., MFIs, etc.)?

Bankers Association Interview Guide

Please describe the work of the Association.

Please describe your position and role within the Association.

How many members does the Association have? Is Bank of Abyssinia one of your members?

Questions 4 and 5

1. Who are the "leading" members of the Association? The members who set models and examples for other members to follow.

2. Does Bank of Abyssinia play any kind of a leadership role within the Association? Please describe.

3. Which bank was the first to offer agricultural credit? When?

4. Have any banks initiated or increased lending to the agriculture sector since 1999? If so, which ones? To what do you attribute these changes?
    a. Do you have any longitudinal data on bank lending to this sector?

5. Which Ethiopian banks would you say are most competitive in agricultural lending now? And 5 years ago? 10 years ago?

6. How has access to credit (i.e., amount, terms, conditions) changed for the agriculture sector (esp. cooperatives) over the last 10 years? Please explain.

Question 6

1. What role have the SCCs played in access to agricultural credit?
    a. Do they compete with banks in this sector?
    b. How does the credit provided by SCCs compare with agricultural loans from banks? (i.e., terms/conditions) Any empirical evidence?

2. Please describe the primary factors that have impacted the market for agricultural credit in Ethiopia (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, or donor behavior)

Questions 2 and 3

1. Are you aware of any changes BOA has made in its loan types, terms, or conditions for agricultural lending since 1999? Please describe.
    a. To what do you attribute these changes?
    b. How have these changes affected the market for agricultural finance?

2. Are you familiar with the USAID loan portfolio guarantees given to Bank of Abyssinia in 1999, 2003, and 2004?
    a. If yes, are you aware of any marketing efforts BOA has used to promote the guarantees?
    b. How have these guarantees impacted the agricultural credit market?
    c. Has Bank of Abyssinia published or discussed the changes it has made to extend agricultural lending, within the Association? Please explain.

Bank of Abyssinia Interview Guide

Intro: Who we are and why here. We are not evaluating BOA—this assessment is one of many we are doing for USAID/DCA so that they can get an objective picture of what happened with many loan guarantees around the world so that DCA can learn from these experiences, with respect to improving the process and use of future guarantees.

Please state your position and describe your role within Bank of Abyssinia. When did you join the bank?

Question 1a

1. How and why did BOA decide to enter the agricultural lending market?

    a. Have these reasons changed over time?
    b. What constraints did BOA face in expanding into these markets? Have they changed over time?
    c. How did the USAID guarantees address those constraints? If not, why not?

    2. We noticed that BOA put a large number of short-term (i.e., less than one year) loans under the first DCA guarantee (2004). Why so many?

Question 1b

1. What procedures did the bank use to market the guarantees (e.g., posters, radio spots, etc.)

2. What changes in bank procedures, processes, structure, etc. did you have to make to accommodate the guarantees? To what degree have you maintained these changes?

3. What was the process you used to assess a potential borrower and place the borrower under the guarantee?

4. How did loan approval and administration procedures differ (if at all) between guaranteed and non-guaranteed loans, pre and during the guarantee period?

Questions 2a &_2b

(for credit manager ONLY: Obtain data for spreadsheets previously sent through Fasika to the bank for completion.) How did loan terms and conditions (i.e., tenors, interest rates, collateral requirements, loan purposes, etc.) differ between USAID-guaranteed and non-guaranteed loans? How did they change over time?

1. How many of the borrowers covered by the guarantees were new customers to the bank?

2. Considering the loans placed under USAID coverage, would BOA have extended loans to those borrowers without guarantee coverage? Why or why not?

    a. If yes, would the loan have been for a lower/higher value without guarantee coverage? If yes, why did the DCA guarantee affect loan size?
    b. If yes, would the tenor of the loan have been different without the guarantee coverage? If yes, why did the DCA guarantee affect loan tenor?
    c. If yes, would the interest rate on the loan have been different without the guarantee coverage? If yes, why did the DCA guarantee affect the interest rate?

Questions 3a

1. Have any borrowers covered by the guarantee subsequently received non-USAID-guaranteed loans?

    a. If yes, how many? On what terms? (e.g., loan type, interest rate, tenor, collateral, size, etc.)
    b. If yes, what types of loans (i.e., term, lines of credit, vehicle purchase, etc.)?
    c. If not, why not?

2. To what extent has BOA lent to the agriculture sector outside of the guarantee coverage? Why?

    (Types of borrowers include agricultural cooperatives, livestock marketing groups, private sector agro-processors, private sector commercial horticulture producers for marketing, equipment, investment in specific regions/sectors)

    a. What were the characteristics of these loans (i.e., % of portfolio, value, average loan size and tenor, # of loans, etc.)

3. What market potential does BOA see in these types of borrowers?

4. Do you think you will continue to lend to these types of borrowers in the future? Why/why not? Under what conditions?

5. Does BOA have guarantees from other donors/sources? If so, what are the terms? Are the same borrowers covered?

Questions 3b

1. What factors were responsible for BOA's extending credit to the agriculture sector outside of the USAID guarantee coverage?

    (For example, did TA, staff training, revised bank strategy, improved procedures, or other factors help BOA to lend to agricultural cooperatives outside of the guarantee coverage? If so, how? How important was each of these factors?)

Questions 4

1. Which was the first Ethiopian bank(s) to offer agricultural lending? When? Under what terms/conditions?
2. Have any banks other than BOA begun or increased lending to the agriculture sector during the period 1999-2009? If so, please name them.
3. Who are BOA's main competitors in this market?
4. Why do you think these other banks have begun/increased lending to the agriculture sector?

Questions 5

1. To what extent have access to loans, or loan terms, changed for agricultural borrowers in Ethiopia?

2. What factors have been responsible for the changes/lack of change?

3. What could be done to improve access to credit for the agriculture sector?

<u>Question 6</u>

1. What role have the SCCs played in access to agricultural credit?
    a. Do they compete with banks in this sector?
    b. How does the credit provided by SCCs compare with agricultural loans from banks? (i.e., terms/conditions) Any empirical evidence?

2. What government-level actions have affected access to credit for the agriculture sector? How?

3. Other factors? (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, or donor behavior)

Other questions:

1. I understand that you recently submitted one or two claims for borrowers under the guarantee. Could you tell me about them (i.e., what happened, what bank has done to recoup the funds, etc.)?

    a. Were there any non-performing loans for which you did not submit claims?

2. How does the percent of loans in arrears compare between USAID-guaranteed and non-guaranteed loans to agricultural cooperatives?

3. What procedures does BOA use to recoup non-performing loans?

    1. Are these procedures any different for USAID-guaranteed compared to non-guaranteed loans?

1. According to the CMS, you have not yet begun to use one of your most recent loan portfolio guarantees from USAID, and you have made only 5 loans under another. Why have you not used these guarantees more?

Additional Questions for Bank of Abyssinia

1. How man of the guaranteed customers received subsequent loans not under AID? At least 1 in Awassa; how many others?
2. If the clients don't pay attention to the interest rates, as Ato Getehun said (the interest rates are cheap), why don't you use the interest rate to manager risk and lower the collateral requirements?
3. If the guarantee demonstrated the creditworthiness of clients (as Ato said it did), why not continue to lend to them and others like them? Why not relax the collateral requirement for those who repaid on time?
4. What has been and is likely to be the impact of the government's leasing of land to foreign investors on the agriculture sector in Ethiopia?

Client Interview Guide

1. Did you previously receive a USAID guaranteed loan? From which bank?

2. With which bank do you currently obtain credit? Why did you switch from BOA?

2. For those of you who came here from Bank of Abyssinia, how would you compare your credit experience with BOA with your credit experience with your current bank? (i.e., enough credit, timely, on reasonable terms, etc.)
    a. Interest rates
    b. Term
    c. Collateral Requirement
    d. Size
    e. How, if at all, did your loan from BOA affect your ability to obtain credit from other financial institutions? Please explain.
    f. How do the loan terms and conditions at your current bank compare with those you had when borrowing from BOA?

3. If you have received more than one loan from a bank, did the terms (interest rate, tenor, size, collateral requirements) change at all between loans?

4. If long-term loans were available to you, would you be interested in them? Why/why not?

5. Looking back over the last 10 years, how easy/difficult has it been for you to obtain a business loan?

    a. How has this situation changed over the years?
    b. What has been responsible for these changes?
    c. What more could be done to increase access to credit for agricultural cooperatives and producers?

6. From where do you think you will borrow in the future? From banks? MFIs? Cooperative banks? Under what conditions?

7. For those of you who have received a USAID-guaranteed loan, was it sufficient to meet your needs? Why/why not? Changes needed?

8. Anything you would like to add?

Client Survey

Location:

Date:

Gender of respondent (M/F):

Part 1: General Profile

1	What kind of enterprise do you represent?	1 = cooperative union 2 = cooperative 3 = livestock marketing group 4 = agro-processor 5 = agricultural producer 6 = OTHER (please explain) ___________________________
2	In which sector does your enterprise work? (Circle all that apply)	1 = coffee 2 = food grains (cereals, oil seeds, pulses) 3 = horticulture 4 = livestock/livestock products 5 = OTHER (please explain) ___________________________
3	In which region does your enterprise work? (Circle all that apply)	1 = Addis Ababa 2 = Amhara 3 = Oromia 4 = Tigray 5 = Southern Nations Nationalities and Peoples (SNNP) 6 = Somali 7 = OTHER (please explain) ___________________________

Part 2: Current Loan

4	When did your enterprise receive its first business loan from a bank?	(specify year, Ethiopian Calendar) _______
5	Prior to receiving your first business loan from a bank, how did you finance your business?	1 = I used my own money 2 = I borrowed from my family or friends 3 = I used a money lender 4 = I used a government program or NGO 5 = I used a cooperative 6 = I used a microfinance institution 7 = OTHER (please explain) ___________________________ 99 = don't know / not applicable
6	Does your enterprise currently have a business loan?	1 = yes (go to **Question 7**) 2 = no (go to **Part 3, Question 13**) 99 = don't know
7	If you responded "yes" to Question 6, with which financial institution is your loan?	1 = Bank of Abyssinia 2 = Cooperative Bank of Oromia 3 = Dashen Bank 4 = Awash Bank 5 = OTHER (please explain) ___________________________
8	If you responded "yes" to Question 6, what is the amount of your loan?	1 = Less than Birr 100,000 2 = Birr 100,000 to 500,000 3 = Birr 500,000 to 1,000,000 4 = Birr 1,000,000 to 3,000,000 5 = Birr 3,000,000 to 5,000,000 6 = Birr 5,000,000 to 10,000,000 7 = More than Birr 10,000,000 99 = don't know / not applicable

9	If you responded “yes” to Question 6, is your loan under the USAID guarantee program?	1 = yes, my loan is under the USAID guarantee program 2 = no, my loan is under a different guarantee program 3 = no, my loan is not under any guarantee program 99 = don’t know
10	If you responded “yes” to Question 6, what is the purpose of your loan?	1 = start-up financing 2 = working capital 3 = investment capital 4 = marketing 5 = purchase of inventory or raw materials 6 = purchase of vehicle or equipment 7 = OTHER (please explain) ______________________________ 99 = don’t know / not applicable
11	If you responded “yes” to Question 6, what is the loan term?	1 = 1 year or less 2 = 2 years to 5 years 3 = more than 5 years 99 = don’t know / not applicable
12	If you responded “yes” to Question 6, what is the collateral requirement?	1 = less than 50% of the value of loan principal plus interest 2 = 50 to 80% of the value of the loan principal plus interest 3 = 80 to 100% of the value of the loan principal plus interest 4 = more than 100% of the value of the loan principal plus interest 99 = don’t know / not applicable

Part 3: Previous Loan

13	Did your enterprise have a business loan from a bank in the past?	1 = yes (go to **Question 14**) 2 = no (go to **Part 4, Question 20**) 99 = don't know / not applicable (go to **Part 4, Question 20**)
14	If you responded "yes" to Question 13, from which financial institution was the loan?	1 = Bank of Abyssinia 2 = Cooperative Bank of Oromia 3 = Dashen Bank 4 = Awash Bank 5 = OTHER (please explain) ____________________________
15	If you responded "yes" to Question 13, what was the amount of your loan?	1 = Less than Birr 100,000 2 = Birr 100,000 to 500,000 3 = Birr 500,000 to 1,000,000 4 = Birr 1,000,000 to 3,000,000 5 = Birr 3,000,000 to 5,000,000 6 = Birr 5,000,000 to 10,000,000 7 = More than Birr 10,000,000 99 = don't know / not applicable
16	If you responded "yes" to Question 13, was your loan under the USAID guarantee program?	1 = yes, my loan was under the USAID guarantee program 2 = no, my loan was under a different guarantee program 3 = no, my loan was not under any guarantee program 99 = don't know
17	If you responded "yes" to Question 13, what was the purpose of your loan?	1 = start-up financing 2 = working capital 3 = investment capital

		4 = marketing 5 = purchase of inventory or raw materials 6 = purchase of vehicle or equipment 7 = OTHER (please explain) _______________________________ 99 = don't know / not applicable
18	If you responded "yes" to Question 13, what was the loan term?	1 = 1 year or less 2 = 2 years to 5 years 3 = more than 5 years 99 = don't know / not applicable
19	If you responded "yes" to Question 13, what was the collateral requirement?	1 = less than 50% of the value of loan principal plus interest 2 = 50 to 80% of the value of the loan principal plus interest 3 = 80 to 100% of the value of the loan principal plus interest 4 = more than 100% of the value of the loan principal plus interest 99 = don't know / not applicable

Part 4: Access to Credit

20	Looking back over the past 10 years, how has access to credit for agricultural cooperatives and producers changed?	1 = Access to credit has improved a lot 2 = Access to credit has improved a little 3 = Access to credit has remained the same 4 = Access to credit has declined a little 5 = Access to credit has declined a lot 99 = don't know
21	Are all of your credit needs currently met?	1 = yes 2 = no 99 = don't know
22	If you answered "no" to Question 21, why not?	1 = I am applying for a new loan now, but have not yet received it 2 = I already applied for a loan, but it was not approved 3 = I need a loan that is bigger than what I have 4 = I need a loan that is longer than what I have 5 = OTHER (please explain) ______________________________ 99 = don't know/no response

Competitor Banks Interview Guide

Please describe your role within the Bank.

Is the Bank a member of the Bankers Association?

Please describe briefly the primary loan products your bank provides. Which market segments does it target?

Does the Bank interact much with Bank of Abyssinia? Please explain.

Questions 4 and 5

1. When did your Bank first begin lending to agricultural cooperatives?
    a. Why did your bank choose to begin lending to this sector?
    b. What constraints have you faced in this market? How have you addressed them?
    c. Approximately what percentage of the bank's loan portfolio (of non-USAID-guaranteed loans) is currently in agricultural credit? 5 years ago? 10 years ago?
    d. How have the bank's terms and conditions for agricultural credit (of non-USAID-guaranteed loans) changed since it first began lending to agricultural cooperatives? What are they currently? To what do you attribute these changes?

Question 6

1. Please describe the market for agricultural finance.
    a. Which Ethiopian bank was the first to lend to the agriculture sector? When?
    b. Who are currently the major providers? Who are the "market movers," the ones that set an example which other providers follow?
    c. How has the market for agricultural finance changed since 1999? What has been responsible for those changes?
    d. Please describe the primary factors that have impacted the agricultural credit market since 1999 (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, or donor behavior).

2. What role have the SCCs played in access to agricultural credit?
    a. Do they compete with banks in this sector?
    b. How does the credit provided by SCCs compare with agricultural loans from banks? (i.e., terms/conditions) Any empirical evidence?

Question 3

1. How does Bank of Abyssinia compare with other agricultural finance providers? (i.e., financial health, loan terms, etc.)?
    a. How has Bank of Abyssinia changed since 1999 (e.g., new markets, new products, loan terms, etc.)? What has been responsible for those changes?

(For banks other than Dashen and Awash)

2. Are you familiar with the USAID loan portfolio guarantees given to Bank of Abyssinia in 1999, 2003, and 2004?
    a. If yes, are you aware of any marketing efforts BOA has used to promote the guarantees?
    b. How have those changes impacted the agricultural credit market?

Donors Interview Guide

Please describe your position and role within ______. How long have you been working here?

Question 6

1. When did your organization first begin working with the agriculture sector in Ethiopia?
2. I understand that you have begun to offer a loan guarantee program to banks in order to encourage them to lend to the agriculture sector. When did you begin this program?
    a. Why did you decide to do a guarantee program?
    b. How is your guarantee program structured? (who does it cover, the terms, with whom, etc.)
    c. How did you develop this structure?
    d. What have been the results so far? Do you have any reports or other documentation you could share with me?
3. Has your organization worked with cooperatives or cooperative unions?
    a. If so, with which ones?
    b. Since when?
    c. What has been the nature of the assistance?
    d. What have been the results of this assistance? Do you have any documentation of these results which you could share with me (i.e., reports, etc.)?
4. What factors have constrained the growth of the agriculture sector over the last 10 years?
5. What factors have promoted the growth of the agriculture sector over the last 10 years?
6. How has access to credit changed for the agriculture sector since 1999?
    a. Do you have any longitudinal data on credit access you could share with me (i.e., demand met/unmet)?
    b. To what do you attribute the changes?
7. What challenges have agricultural organizations (cooperatives, producers, coffee washers, etc.) faced in accessing credit?
    a. Have these challenges changed over the last 10 years?
    b. How have the agricultural organizations dealt with these challenges?
8. What more could be done to improve access to credit for the agriculture sector?

Questions 4 and 5

1. Which bank(s) were the first to offer credit to agricultural cooperatives? When did they begin to do so?

2. Which financial institutions in Ethiopia are currently most active in providing credit to agricultural cooperatives? Which are the leaders?
3. How does Bank of Abyssinia compare with these other banks in terms of providing access to credit for agricultural cooperatives?
4. Have banks changed their loan types or terms offered to agricultural cooperatives since 1999? Please describe.
    a. To what do you attribute these changes?
5. Do you have any longitudinal data on agricultural lending (i.e., amount, terms and conditions)?

Questions 2 and 3

1. Are you aware of any changes Bank of Abyssinia has made in its loan types, terms, or areas of operation since 1999? Please describe.
    a. To what do you attribute these changes?
    b. How have these changes affected agricultural cooperatives?
2. Are you familiar with the USAID loan portfolio guarantees given to Bank of Abyssinia in 1999, 2003, and 2004?
    c. If yes, are you aware of any marketing efforts BOA has used to promote the guarantees?
    d. How have these guarantees impacted the agricultural credit market?

Federal Cooperative Commission Interview Guide

Please describe briefly the work of the Commission.
Please describe your role with the Commission.

Questions 5 and 6

1. Approximately how many agricultural cooperatives currently operate in Ethiopia? And 10 years ago?
2. What factors have constrained the growth of agricultural cooperatives over the last 10 years?
3. What factors have promoted the growth of agricultural cooperatives over the last 10 years?
4. How has membership in the cooperatives changed over the last 10 years (i.e., expansion, contraction, types of members, etc.)?
5. How has access to credit changed for agricultural cooperatives since 1999?
    a. Do you have longitudinal data on agricultural lending (i.e., value, % of demand met/unmet, loan terms and conditions)? Is it disaggregated by region?
    b. To what do you attribute these changes?
6. What challenges have cooperatives faced in accessing credit? Have these challenges changed over the last 10 years? How have the cooperatives dealt with these challenges?

7. Please describe any financial sector reform, government intervention, lender industry competition, financial shocks, or donor behavior that have impacted agricultural cooperatives' access to credit.

Question 4

1. Which bank(s) were the first to offer credit to agricultural cooperatives? When did they begin to do so?

2. Which financial institutions in Ethiopia are currently most active in providing credit to agricultural cooperatives?

3. How does Bank of Abyssinia compare with these other banks in terms of providing access to credit for agricultural cooperatives?
4. Have banks generally changed their loan types, terms, or areas of operation since 1999? Please describe.
    a. To what do you attribute these changes?

5. Which bank(s) would you say are the leaders in agricultural finance? Why?

Question 3

1. Are you aware of any changes Bank of Abyssinia has made in its lending to the agriculture sector since 1999? Please describe. (i.e., extent, terms and conditions, etc.)
    a. To what do you attribute these changes?
    b. How have these changes affected the bank's cooperative clients?

2. Are you familiar with the USAID loan portfolio guarantees given to Bank of Abyssinia in 1999, 2003, and 2004?
    c. If yes, are you aware of any marketing efforts BOA has used to promote the guarantees?
    d. How have these guarantees impacted the agricultural credit market?
    e. Has Bank of Abyssinia published or discussed the changes it has made to extend agricultural lending, within the Association? Please explain.

TA Providers Interview Guide

What is your position at ACDI/VOCA?
Please describe your role with the ACE program?
How did the ACE program and the USAID guarantee programs (MSED and DCA) interact? How did they impact each other?

Question 1a

1. To your knowledge, how and why did BOA decide to enter the agricultural lending market?

2. What constraints did BOA face in the agricultural lending market?
    a. How did the USAID assistance (TA/guarantees) address those constraints?

Question 1b

1. How did USAID market the guarantees?

2. Did ACDI/VOCA market the guarantees? Please explain.

3. Which of the following BOA borrowers did you refer to BOA and when:

    Ada's FCU
    Ambo FCU
    Aminat Nuru Mohammed
    Angacha FCU
    Awabal FCU
    Ayawa International Pvt. Ltd. Company
    Becho-Woliso FCU
    Begashaw Chanie Legesse
    Berek Aleltu FCU
    Buno Bedele FCU
    Bure FCU
    Bure Wanberma Farmers Cooperative Union
    Burkito Agro Industry Plc
    DANGORA TONTONI GELELCHA
    Dibanke Livestock Production Pvt. Ltd.
    Domat FCU
    DTC Holdings Plc
    Enemay FCU
    Erer FCU
    Fero Plc
    Galema FCU
    Gozamen FCU
    Haragu FCU
    Hotessa FCU
    Kafa Forest Coffee FCU
    Keffa Forest Coffee FCU
    Licha Adiya FCU
    Licha FCU
    Lume FCU
    Mekonnen Fetene
    MEKURIA SHONA BARO
    Mekuria Tadesse Shamena
    Menagesha Integrated Organic Farm
    Merkeb FCU
    Mulualem Bayu Alemayehu
    Oromia Coffee FCU
    Sidama Coffee FCU

TARIKU MIREGDU HARRO
TEWODROS MORKATI OYO
Wendwossen Woubie
Woy Yeshi Engida W/Tsadik
Yeshi Engida Wolde Tsadik
Yirgacheffe Coffee FCU

4. How else did ACE affect BOA's use of the guarantees? (any empirical evidence?)

Questions 2a_and b

1. What factors might have influenced BOA to make loans to the agriculture sector without the USAID guarantees? (Would ACE have been enough on its own?)

2. What changes have you seen in BOA since 1998 (e.g., policies, procedures, structure, etc.)? What factors have influenced these changes?

Questions 3a and b

1. To what extent has BOA lent to the agriculture sector outside of the guarantee coverage? (any empirical evidence?)

2. Do you think BOA will continue to lend to these types of borrowers in the future? Why/why not? Under what conditions?

Questions 4

1. Which was the first Ethiopian bank(s) to offer agricultural credit? When?

2. Have any banks other than BOA begun or increased lending to the agriculture sector during the period 1999-2009? If so, please name them.

3. Who are BOA's main competitors in this market?

4. Why do you think these other banks have begun/increased lending to the agriculture sector? (any empirical evidence?)

Questions 5

1. Did you have any longitudinal data on agricultural lending in Ethiopia (i.e., value, % of cooperatives covered, terms and conditions)? Are they disaggregated by region?
    a. To what do you attribute changes over time?

2. What role have the SCCs played in increasing access to agricultural credit? Do they compete with banks in this sector? How does the credit provided by SCCs compare with agricultural loans from banks? (i.e., terms and conditions, volume) (any empirical evidence?)

3. Considering the cooperatives with which ACE worked, from where are they currently obtaining credit? Please explain.

4. What more could be done to improve access to credit for the agriculture sector?

Question 6

1. How did the ACE program contribute to increasing access to credit for cooperative unions? (any empirical evidence?)
2. What other donor programs have been working with agricultural cooperatives in Ethiopia? What have they been doing?

3. What government-level actions have affected access to credit for the agriculture sector? How?
4. Other factors?

USAID/Russia Interview Guide

What is your position at USAID?
Please describe your role with BOA and the MSED/DCA guarantees. How long have you been working with BOA?
Please describe the history of the Mission's work with BOA. (NOTE: be sure to ask about how the DCA guarantee grew out of the MSED guarantees, if not already addressed.)

Questions 1a

1. How and why did BOA decide to enter the agricultural lending market?
2. What constraints did BOA face in this market?
3. How did the USAID guarantees address those constraints?

Question 1b

1. How did USAID market the guarantees?
2. How did BOA implement the USAID guarantees (e.g., staff training, marketing, etc.)?
3. What USAID TA projects affected BOA's use of these guarantees? How did the projects affect use of the guarantees?

Questions 2a and b

1. What factors might have influenced BOA to make these loans without the guarantee?
2. What changes have you seen in BOA since 1999 (e.g., policies, procedures, structure, etc.)? What factors have influenced these changes?
3. Could BOA have improved its lending to agricultural cooperatives more by using the USAID guarantees differently? How? Explain.

Questions 3a and b

1. To what extent has BOA lent to the agriculture sector outside of the USAID guarantee coverage?
2. Do you think BOA will continue to lend to these types of borrowers in the future? Why/why not? Under what conditions?

Questions 4a/4b

1. Which bank(s) were the first to offer agricultural credit? When? Under what terms/conditions?
2. Have any banks other than BOA begun or increased lending to the agriculture sector during the period 1999-2009? If so, please name them.
    i. Do you have any longitudinal data on agricultural lending?
3. Who are BOA's main competitors in this market?
4. Why do you think these other banks have begun/increased lending to the agriculture sector?

Questions 5a/5b/5c

1. To what extent have access to loans, or loan terms, changed for agricultural borrowers in Ethiopia?

2. What factors have been responsible for the changes/lack of change?
    a. Have the USAID-funded TA projects (esp. ACE) played a role in credit access to agricultural cooperatives in Ethiopia? Please explain.

3. What more could be done to improve access to credit for the agriculture sector?

Question 6

1. What role have the SCCs played in access to agricultural credit?
    a. Do they compete with banks in this sector?
    b. How does the credit provided by SCCs compare with agricultural loans from banks? (i.e., terms/conditions) Any empirical evidence?
2. What other donor programs have been working with agricultural cooperatives in Ethiopia? What have they been doing?
3. What government-level actions have affected access to credit for the agriculture sector? How?

4. Other factors? (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, or donor behavior)

Other

According to the CMS, BOA has not yet begun to use one of its most recent loan portfolio guarantees from USAID, and it has made only 5 loans under another. Why has BOA not used these guarantees more?