

# SME Finance for Women in Ethiopia

## South-South Facility Development Outcome Story



### *Fighting poverty through economic empowerment of women*

#### THE CHALLENGE:

Despite high economic growth, Ethiopia remained one of the world's poorest countries in 2013. Its per capita income of US\$502 was the 8th lowest worldwide and in 2010 still 30% of Ethiopians were living in poverty<sup>1</sup>. The growth of micro and small enterprises was considered key for raising incomes. Estimates illustrated that empowering women in the economic sector would also increase GDP growth substantially. However, there were two main constraints for women's small business development: 1) lack of access to finance; and 2) limited technical and entrepreneurial skills. Trainings were ill-suited for growth-oriented female entrepreneurs, and loans offered were mostly small group-based microfinance loans. The highest-potential women entrepreneurs needed larger loans, but these typically required large collateral, which they rarely possessed. The government of Ethiopia wanted to tackle these issues as part of their plan to become a middle-income country by 2025. They negotiated a US\$50 million Women Entrepreneurship Development Project (WEDP) with the World Bank for on-lending funds to women entrepreneurs and to provide business trainings. Ethiopia had however limited experience in financing growth-oriented women entrepreneurs.



#### AT-A-GLANCE

##### CHALLENGE

In 2013, Ethiopia was one of the world's poorest countries. Growing female-owned enterprises could raise incomes, but female entrepreneurs faced significant challenges. They often lacked access to finance, had difficulty providing collaterals and possessed limited business skills.

##### SSF GRANT

US\$ 44,549

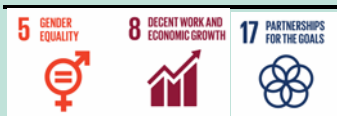
##### KNOWLEDGE RECIPIENT

Ethiopia

##### KNOWLEDGE PROVIDER

India

##### SDGS SUPPORTED



##### IMPACT

In 2013, a knowledge exchange provided Ethiopia with first-hand insights on India's microfinance best-practices. Ethiopians learned about advanced loan appraisal techniques, business skills training offerings, and how to transition from group loans to individual loans. Lessons from the exchange were integrated in the US\$50 million Women Entrepreneurship Development Project (WEDP).

As of March 2019, loan collateral requirements were reduced, 11,300 women entrepreneurs took individual loans and over 16,000 participated in business training. Participating enterprises had grown incomes by 40.77% over 3 years and increased employment by 55.73%.

Trainings were ill-suited for growth-oriented female entrepreneurs, and loans offered were mostly small group-based microfinance loans. The highest-potential women entrepreneurs needed larger loans, but these typically required large collateral, which they rarely possessed. The government of Ethiopia wanted to tackle these issues as part of their plan to become a middle-income country by 2025. They negotiated a US\$50 million Women Entrepreneurship Development Project (WEDP) with the World Bank for on-lending funds to women entrepreneurs and to provide business trainings. Ethiopia had however limited experience in financing growth-oriented women entrepreneurs.

#### THE EXCHANGE:

In response, the World Bank organized a study tour to India in 2013 through which Ethiopian project stakeholders learned from their Indian peers. They gained valuable insight on India's approach to on-lending, loan appraisal and women's business skills strengthening. India also showcased how it successfully transitioned from group lending to individual loans. Seeing first-hand how the program in India had delivered great results, provided confidence to the Ethiopians. It helped create a cohesive and committed group of stakeholders implementing Ethiopia's first women-only line of credit as part of the WEDP.

#### THE IMPACT, SIX YEARS LATER:

Following the exchange, the newly gained knowledge on loan appraisal techniques and individual lending was integrated into the WEDP technical assistance package for 12 Ethiopian micro-finance institutions. As of March 2019, more than 16,000 women entrepreneurs benefited from business training and over 11,300 took individual WEDP-financed loans of whom 60% were first time borrowers. Women entrepreneurs finally gained access to the larger loans they needed to fuel enterprise growth – the average WEDP loan was 870% larger than loans they could access previously. Firms participating in WEDP had grown incomes by 40.77% over 3 years and increased employment in their enterprises by 55.73%. Requirements for asset collateral were reduced from 200% of the loan-size in 2013 to 125% in 2018 and new forms of collateral are now accepted such as vehicles or business inventory. WEDP continues to grow and lessons are now informing initiatives in Tanzania, Zimbabwe, Madagascar, Mexico, and Indonesia.