

**DEVELOPMENT BANK OF ETHIOPIA**

**SMALL AND MEDIUM ENTERPRISE  
FINANCE PROJECT (SMEFP) (P148447, IDA  
57930 & EUROPEAN INVESTMENT BANK  
CONTRACT NO. 85755)**

**FINANCIAL STATEMENTS  
AND AUDIT REPORT  
JUNE 30, 2019**

Kokeb & Melkamu Audit Partnership  
Chartered Certified Accountants (UK)  
Authorized Auditors in Ethiopia

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**DEVELOPMENT BANK OF ETHIOPIA, SMALL AND MEDIUM  
ENTERPRISE FINANCE PROJECT (SMEFP) (P148447, IDA 57930)**

**FINANCIAL STATEMENTS AND AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2019**

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# Kokeb & Melkamu Audit Partnership

Chartered Certified Accountants (UK)

## INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF DEVELOPMENT BANK OF ETHIOPIA SMALL AND MEDIUM ENTERPRISE FINANCE PROJECT (SMEFP)

We have audited the accompanying financial statements of the Small and Medium Enterprise Finance Project (SMEFP) financed by the International Development Association, and the European Investment Bank through credit Number 57930 - ET comprising the statement of financial position as at July 7<sup>th</sup>, 2019 and the Statement of Sources and Uses of Funds for the year then ended, and a summary of significant accounting policies and other explanatory information shown from pages 3 to 16.

June 30, 2019

### **Basis for Qualified opinion**

We conducted our audit in accordance with the International Standards on Auditing applicable to the audit of financial statements. Furthermore, we have audited the Project's compliance with the provisions and covenants of the International Development Association (IDA LOAN No. 57930 - ET), the European Investment Bank Financing Agreements.

Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accounts (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The Project Management Team does not maintain separate Loan records of lessees which are financed by DBE Districts and Branches as it does for PFI Loans. The quarterly and annual statement of the Project is prepared based on different information and reports extracted from the Bank's operational units and financial institutions report, which handle the working capital part of the financing. As a result, we could not get complete records of leases loans centrally at the project Management unit, list of SME' which are currently benefited from lease financing together with their loan status, list of SME's in the process of financing, the status of lease loans with the Project Management Team.

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph the financial statements present fairly, in all material respects, the financial position and balance of the Small and Medium Enterprise Finance Project (SMEFP) implemented by the Development Bank of Ethiopia, the Statement of Sources and Uses of Funds for period covering July 1, 2018 up to June 30, 2019 in accordance with the financial management policy of Development Bank of Ethiopia adopted for the Project. Again, except for the above, the Project was, in all material respects, in compliance with the Financing Agreements and Contracts.





With respect to the statements of sources and uses of funds submitted during the period listed on page 4, in our opinion:

- (a) The statements, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals;
- (b) We are not certain whether the proceeds of the designated account have been used exclusively for eligible expenditures and provisions and covenants of the Financing Agreement.

#### **Management's Responsibility for the Financial Statements**

The management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies of the Project, and for such internal control as management determines is necessary to enable the preparation of a project report that is free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the project report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Ato Kokeb Moges.

*Kokeb & Melkamu*  
Kokeb & Melkamu Audit Partnership  
Chartered Certified Accountants (UK)  
Authorized Auditors in Ethiopia



Addis Ababa  
December 26, 2019

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ASSETS

## Notes

2018

Cash at banks	3	1,228,333,081	1,225,807,097
Debtors and prepayments		-	34,561,403
<b>Total Assets</b>		<b>1,228,333,081</b>	<b>1,260,368,500</b>
Fund Balance	4	1,228,333,081	1,260,368,500



**DEVELOPMENT BANK OF ETHIOPIA,  
SMALL AND MEDIUM ENTERPRISE FINANCE PROJECT (SMEFP) (P148447, IDA 57930)  
STATEMENT OF INCOME AND EXPENDITURE  
FOR THE YEAR ENDED 30 JUNE 2019**

<b>SOURCES</b> <b>MAIN</b>	<b>Notes</b> <b>5</b>	<b>2018</b>
IDA Credit	5.1	1,047,038,619
EIB Credit	5.2	325,807,000
		1,372,845,619
<b>OTHER</b>		1,659,498,984.00
Foreign Exchange Gain	6	71,410,520
		71,410,520
		1,444,256,139
<b>USES</b>	7	
Window 1: Lease Finance to SMEs		
Expeniture IDA		931,992,878
Expeniture EIB		192,755,932
		1,124,759,328
		417,062,766
		-
		417,062,766
Window 2: Working Capital Finance to SMEs		
Expeniture IDA		282,778,786
Expeniture EIB		63,553,444
		346,332,230
		26,985,075
		-
		26,985,075
Bank Charge		5,259
		1,471,091,558
		3,705
		444,051,546
<b>EXCESS OF USES OVER SOURCES</b>		(26,835,418)
		1,260,368,500





DEVELOPMENT BANK OF ETHIOPIA,  
 SMALL AND MEDIUM ENTERPRISE FINANCE PROJECT (SMEFP) (P148447, IDA 57930)  
 STATEMENT OF DESIGNATED ACCOUNT- IDA  
FOR THE YEAR ENDED 30 JUNE 2019

IDA Credit

Account number	0101171300037
Depository Bank	National Bank of Ethiopia
Related Credit and Grant	Loan No. 57930 and Project ID No. P 148447
Address	Addis Ababa, Ethiopia
Currency	USD

	<u>USD</u>
Opening balance brought forward, 30 June 2018	50,314,444
Add:-Transferred from World Bank-Credit	37,267,703
	-
	<b>87,582,147</b>
Less:- Transferred to Birr account, & Bank charges	(63,621,047)
	-
	<b>(63,621,047)</b>
Add:- Gain on exchange	-
	-
Ending balance, June 30, 2019	<b><u>23,961,099</u></b>

NB: The following rates were used for conversion: 1us Dollar=28.7703 Birr 29.20  
 Birr (Separately for opening and closing balances of DA)



**DEVELOPMENT BANK OF ETHIOPIA,  
SMALL AND MEDIUM ENTERPRISE FINANCE PROJECT (SMEFP) (P148447, IDA 57930)  
STATEMENT OF DESIGNATED ACCOUNT- EIB  
FOR THE YEAR ENDED 30 JUNE 2019**

Account number 0101171300042  
Depository Bank National Bank of Ethiopia  
Related Credit and Grant Loan No. 85755  
Address Addis Ababa, Ethiopia  
Currency EURO

	<u>EURO</u>
Opening balance brought forward, 30 June 2018	10,000,000
Add:-European Investment Bank credit	10,000,000
Reimbursement from advance payment	-
	<u>20,000,000</u>
Less:- Transferred to Birr	(7,963,223)
Bank charges	-
	<u>(7,963,223)</u>
Add:- Gain on exchange	-
	<u>-</u>
Ending balance, June 30, 2019	<u>12,036,777</u>

**NB:**The following rates were used for conversion: 1EUR=32.3521 Birr & 33.2033 Birr (Separately for opening and closing balances of DA)





**DEVELOPMENT BANK OF ETHIOPIA,  
SMALL AND MEDIUM ENTERPRISE FINANCE PROJECT (SMEFP)  
LOAN No. 57930-ET  
FOR THE YEAR ENDED JUNE 30, 2019**

**1: BACKGROUND**

The Federal Democratic Republic of Ethiopia (GoE) signed an agreement with International Development Association (IDA) and European Investment Bank (EIB) on June 15 2015 for **Small and medium Enterprise Finance Project (SMEFP)** IDA will finance the project by investing 200 million US Dollar and 76 million Euros. The project will be active up to August 31, 2022.

The Project Development Objective of SMEFP is to increase access to finance for eligible small and medium enterprises in Ethiopia based on eligibility criteria and the final project beneficiaries will be eligible SMEs operating in the manufacturing and agro-processing industries.

The SME Finance project will have four components, namely; (i) Financial Services to SMEs (ii) Enabling Environment for SME Finance; (iii) Business Development Services to SMEs; (iv) Project Management, Communication and Impact Evaluation.

**Component 1 – Financial Services to SMEs**

The objective of this component is to establish a credit facility providing access to finance for (a) working capital and leasing finance for participating financial institutions (PFIs) which in turn lend to eligible SMEs and (b) leasing finance for eligible SMEs. This liquidity support will be complemented with mandatory technical assistance aimed at supporting PFIs in designing, piloting and rolling out financial products utilizing novel lending methodologies (e.g. cash flow-based lending) to successfully expand their outreach to the target SMEs. The technical assistance support will be funded externally through bilateral agreements with development partners.

**Component 2 – Enabling Environment for SME Finance**

- a) The objective of the second component is to improve the enabling environment for facilitating SME finance in Ethiopia. This would require the following:
- b) creation of a collateral registry that would support both the lending and the leasing business;
- c) a diagnostic of the insolvency and creditor/debtor regime to address key bottlenecks to SME lending;

**Component 3 – Business Development Services to SMEs**

The objective of the third component is to support SMEs through the provision of tailored Business Development Services (BDS) to address constraints on the demand side. BDS support to SMEs can address (but is not limited to) the lack of capacity to develop bankable business plans, the poor quality of financial statements and records, the inability to manage risk, the lack of knowledge of business development and management, the lack of adequate collateral etc.



#### ***Component 4 – Project Management, Communication and Impact Evaluation***

The objective of the fourth component is to support overall coordination of project activities, and to rigorously measure the impact of the project on the growth of participating SMEs. The two main implementers of the project will be the Development Bank of Ethiopia (DBE) and the Ministry of Industry (MoI).

**These financial statements only relate to the activity of component 1. Activities from Component 2 to Component 4 are handled by the Federal Small and Medium Manufacturing Industry Development Agency**

## **2. ACCOUNTING POLICIES**

The Development Bank of Ethiopia follows the generally accepted accounting principles on cash basis of accounting system with double entry recording taking into account the decentralized accounting structure of the project. In preparation and presentation of the financial statement, the project uses principal policies such as

### **a) Income and expenditure recognition**

The income is recognized on the basis of actual cash receipt from the World Bank and the European Investment Bank. Expenditure are recorded on lease financing operation started and money is transferred to other financial institutions

### **c) Foreign currency transactions.**

Transaction in foreign currencies are translated using the exchange rate prevailing on the date of the transaction.

Transactions are recorded in local currency, Birr. Expenditures in local currency are converted to USD/EURO, when the reports in USD are needed, at the exchange rate on the latest date of funds received from financier.





DEVELOPMENT BANK OF ETHIOPIA,  
SMALL AND MEDIUM ENTERPRISE FINANCE PROJECT (SMEFP) (P148447, IDA 57930)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019

Currency : Ethiopian Birr

3. CASH AT BANK

Designated Accounts				2018
NBE SME Designated IDA	23,961,099.49	29.2000	699,664,105	812,212,447
NBE SME Designated EIB	12,036,777.05	33.2034	399,661,321	255,103,168
NBE SME Pooled Birr Account IDA			126,576,899	110,766,084
NBE SME Pooled Birr Account EIB			2,430,756	47,725,398
			<u>1,228,333,081</u>	<u>1,225,807,097</u>
NBE SME Designated IDA	USD 23,961,099.49	Rate 29.2000	699,664,105.11	
NBE SME Designated EIB	Euro 12,036,777.05	33.2034	399,661,321.26	

4. FUND BALANCE

Balance as at 1st July 2018	1,260,368,500	-
Prior year reporting difference	(5,200,000)	-
Excess of Sources Over Uses	(26,835,418)	1,260,368,500
Balance as at 30st June 2019	<u>1,228,333,081</u>	<u>1,260,368,500</u>

5. SOURCE OF FUNDS

SOURCES	USD	Rate	Amount Received (ETB)	
5.1 IDA Credit				
23-Apr-19	10,773,246.48	28.60	308,135,318.50	
15-Feb-19	5,667,756.28	28.28	160,256,375.59	
12-Feb-19	4,011,278.94	28.25	113,337,884.19	
21-Dec-18	6,966,768.15	27.99	195,030,494.30	
20-Aug-18	9,848,652.73	27.44	270,278,546.60	
	<u>37,267,702.58</u>		<u>1,047,038,619.18</u>	<u>1,322,830,984.00</u>
5.2 EIB Credit				
	USD	Rate	Amount Received (ETB)	
6-Nov-19	10,000,000.00	32.58	325,807,000.00	
	<u>10,000,000.00</u>		<u>325,807,000.00</u>	
				<u>33,668,000.00</u>

6. FOREIGN EXCHANGE GAIN

71,410,520.10	<u>44,921,062.00</u>
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DEVELOPMENT BANK OF ETHIOPIA,  
SMALL AND MEDIUM ENTERPRISE FINANCE PROJECT (SMEFP) (P148447, IDA 57930)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019

Currency : Ethiopian Birr

7. USE OF FUNDS

Window 1: Lease Finance to SMEs

				2018
Expeniture IDA- USD	32,804,380.32	28.410623	931,992,878	417,062,766
Expeniture EIB -Euro	5,963,221.95	32.324125	192,755,932	-
Bank charge			5,259	-
			<b>1,124,754,069</b>	<b>417,062,766</b>

Window 2: Working Capital Finance to SMEs

Expeniture IDA- USD	10,023,896.64	28.210465	282,778,786	26,985,075
Expeniture EIB -Euro	1,927,732.13	32.967985	63,553,444	-
			<b>346,332,230</b>	<b>26,985,075</b>
			<b>1,471,086,299</b>	<b>444,051,546</b>





**DEVELOPMENT BANK OF ETHIOPIA,  
SMALL AND MEDIUM ENTERPRISE FINANCE PROJECT (SMEFP) (P148447, IDA 57930)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

Currency : Ethiopian Birr

**Expenditure**

**Window 1: Lease Finance to SMEs (Per Development Bank of Ethiopia Districts)**

IDA	USD		ETB
Addis Ababa	9,638,742	27.93	269,250,606
Adama	7,104,751	28.43	202,002,857
Bahir Dar	2,480,652	32.08	79,582,181
Dessie	3,272,496	28.35	92,779,418
Mekele	1,989,492	21.99	43,740,052
Hawasa	3,712,958	30.27	112,380,433
Dire Dawa	1,022,045	29.02	29,660,911
Butajira	1,130,166	28.54	32,251,562
Wolayita Sodo	1,638,106	28.68	46,985,847
Gonder	550,157	28.57	15,715,872
Jimma	47,827	28.42	1,359,257
Gambella	150,834	29.03	4,378,338
Nekemt	66,154	28.86	1,909,479
	<b>32,804,380</b>		<b>931,996,816</b>
Bank Charge	<b>142</b>		<b>3,938</b>

**Window 2: Working Capital Finance to SMEs (Through the following institutions)**

IDA	USD		ETB
Amhara Credit and Saving Association(ACSI)	781,901	28.44	22,240,906
Addis Credit & Saving	723,716	28.12	20,347,646
Visionfund Microfinance Insitution	108,910	28.34	3,086,060
Wassa Microfiannce	550,864	28.40	15,645,395
Enat Bank	2,064,136	27.79	57,360,420
United Bank	3,300,094	28.45	93,895,707
Birhan International Bank	2,494,276	28.15	70,202,652
	<b>10,023,897</b>		<b>282,778,786</b>
<b>IDATotal</b>			<b>1,214,779,540</b>



**DEVELOPMENT BANK OF ETHIOPIA,  
SMALL AND MEDIUM ENTERPRISE FINANCE PROJECT (SMEFP) (P148447, IDA 57930)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

Currency : Ethiopian Birr

**Window 1: Lease Finance to SMEs (Per Development Bank of Ethiopia Districts)**

<b>EIB</b>	<b>EURO</b>		<b>ETB</b>
Addis Ababa	1,938,543	32.45	62,908,805
Adama	105,966	32.12	3,403,827
Bahir Dar	1,657,271	32.31	53,549,954
Dessie	365,975	32.07	11,736,491
Mekele	256,314	32.56	8,345,303
Hawasa	187,235	32.27	6,041,730
Dire Dawa	749,219	32.28	24,186,497
Butajira	605,943	32.06	19,428,229
Wolayita Sodo	89,669	32.63	2,925,982
Gonder	7,085	32.52	230,435
	<b>5,963,222</b>		<b>192,757,253</b>
Bank Charge	<b>42</b>		<b>1,321</b>

**Window 2: Working Capital Finance to SMEs (Through the following institutions)**

<b>EIB</b>	<b>EURO</b>		<b>ETB</b>
Amhara Credit and Saving Association(ACSI)	474,929	32.90	15,626,283
Addis Credit & Saving	134,879	32.99	4,449,956
Visionfun I	58,935	32.99	1,944,383
Wassa Microfiannce	41,031	32.90	1,349,820
Enat Bank	315,004	32.99	10,392,634
United Bank	460,119	32.99	15,180,292
Birhan International Bank	442,836	32.99	14,610,076
	<b>1,927,732</b>		<b>63,553,444</b>

**EIB Total** **256,312,018**

**Total Expenditure** **1,471,091,558**





**DEVELOPMENT BANK OF ETHIOPIA**  
**SMALL AND MEDIUM ENTERPRISES LEASE FINANCING PROJECT(P148447.IDA 57930)**  
**Consolidated Expenditures Summary (in Ethiopia Birr) (Source IDA)**

For The Quarter Ended June 30, 2019

Particulars	Annual Budget based on forecast (1)	1st Quarter Expenditure (2)	2nd quarter expenditure (3)	3rd quarter expenditure (4)	4th quarter expenditure (5)	Total expenditure for the year (6)	Cumulative (To date)	Variance /Remaining Budget/ (1-6)=7	% of utilization
<b>Expenditures(Applications)</b>									
DBE SME's Addis Ababa District	-	72,342,798.42	22,578,652.10	59,960,915.28	114,368,240.56	269,250,606.36	536,992,963.19	-	-
DBE SME's Adama District	-	66,615,642.17	18,726,197.39	67,416,034.39	49,244,983.38	202,002,857.33	351,323,266.00	-	-
DBE SME's Bahirdar District	-	5,961,413.97	34,436,675.35	16,538,043.48	22,646,048.69	79,582,181.49	79,582,181.49	-	-
DBE SME's Dessie District	-	8,769,036.81	9,435,047.64	8,058,839.46	66,516,494.23	92,779,418.14	92,779,418.14	-	-
DBE SME's Mekelle District	-	22,087,808.32	12,029,614.89	9,144,182.06	478,447.15	43,740,052.42	43,740,052.42	-	-
DBE SME's Hawassa District	-	12,105,944.04	53,421,232.51	27,501,209.81	19,352,046.23	112,380,432.59	112,380,432.59	-	-
DBE SME's Dire Dawa District	-	-	1,958,756.87	2,765,881.49	24,936,272.95	29,660,911.31	29,660,911.31	-	-
DBE SME's Butajira District	-	-	3,220,898.18	26,478,817.56	2,551,846.72	32,251,562.46	32,251,562.46	-	-
DBE SME's Woliyata District	-	-	3,256,512.89	29,867,350.78	13,861,982.85	46,985,846.52	46,985,846.52	-	-
DBE SME's Gondar District	-	-	-	9,596,122.16	5,719,750.31	15,715,872.47	15,715,872.47	-	-
DBE SME's Jimma District	-	-	-	1,359,256.85	-	1,359,256.85	1,359,256.85	-	-
DBE SME's Gambella District	-	-	-	-	4,378,338.49	4,378,338.49	4,378,338.49	-	-
DBE SME's Nekemte District	-	-	-	-	1,909,479.23	1,909,479.23	1,909,479.23	-	-
DBE SMEs ACSI MIF	-	-	5,278,168.00	-	16,962,738.33	22,240,906.33	35,725,981.33	-	-
DBE SMEs Addis Credit & saving MIF	-	-	-	10,173,823.00	10,173,823.00	20,347,646.00	20,347,646.00	-	-
DBE SMEs Wasasa MIF	-	1,543,030.00	-	1,543,030.00	-	3,086,060.00	3,086,060.00	-	-
DBE SMEs Vision MIF	-	1,750,000.00	272,698.00	2,222,697.00	11,400,000.00	15,645,395.00	15,645,395.00	-	-
DBE SMEs Enat Bank	-	6,380,210.00	-	11,880,210.00	39,100,000.00	57,360,420.00	62,860,420.00	-	-
DBE SMEs United Bank	-	5,260,116.00	-	16,446,208.67	72,189,381.98	93,895,706.65	106,895,706.65	-	-
DBE SMEs Birhan Bank	-	-	16,701,326.00	16,701,326.00	36,800,000.00	70,202,652.00	70,202,652.00	-	-
SME Bank Charge	-	2,150.39	1,309.00	258.50	220.00	3,937.89	7,643.32	-	-
<b>Grand Total of the Project</b>	-	202,816,150.12	181,317,088.82	316,054,206.49	512,590,094.10	1,214,779,539.53	1,664,031,085.46	-	-
<b>Financiers</b>		Actual expenditures of the quarter Birr	Actual Expenditures of the quarter USD						
IDA Credit	100	0	0.00						
GOE	0	0	0.00						
<b>Total</b>	100	0	0						





**DEVELOPMENT BANK OF ETHIOPIA**  
**SMALL AND MEDIUM ENTERPRISES LEASE FINANCING PROJECT(P148447.IDA 57930)**  
**Consolidated Expenditures Summary (in USD) (Source IDA)**  
**For The Quarter Ended June 30,2019**

Particulars	Annual Budget based on forecast (1)	1st Quarter Expenditure (2)	2nd quarter expenditure (3)	3rd quarter expenditure (4)	4th quarter expenditure (5)	Total expenditure for the year (6)	Cumulative (To date)
<b>Expenditures(Applications)</b>							
DBE SME's Addis Ababa District	-	2,519,896.09	804,007.33	2,104,383.81	3,950,306.61	9,378,593.84	19,140,371.71
DBE SMEs Adama District	-	2,410,871.35	668,149.18	2,359,787.45	1,704,733.11	7,143,541.09	12,598,315.96
DBE SMEs Bahirdar District	-	216,154.44	1,223,146.86	578,781.28	783,019.67	2,801,102.25	2,801,102.25
DBE SMEs Dessie District	-	413,550.54	336,295.32	281,575.95	2,305,337.39	3,336,759.20	3,336,759.20
DBE SMEs Mekelle District	-	798,863.13	429,874.50	321,136.44	16,506.35	1,566,380.42	1,566,380.42
DBE SMEs Hawassa District	-	436,564.93	1,902,090.26	963,151.95	671,178.43	3,972,985.57	3,972,985.57
DBE SMEs Dire Dawa District	-	-	69,557.88	96,250.48	856,234.17	1,022,042.53	1,022,042.53
DBE SMEs Butajira District	-	-	114,378.08	927,819.55	87,967.43	1,130,165.06	1,130,165.06
DBE SMEs Woliyata District	-	-	116,184.02	1,042,169.94	479,746.38	1,638,100.34	1,638,100.34
DBE SMEs Gondar District	-	-	-	351,115.08	198,637.51	549,752.59	549,752.59
DBE SMEs Jimma District	-	-	-	47,826.85	-	47,826.85	47,826.85
DBE SMEs Gambella District	-	-	-	-	150,834.23	150,834.23	150,834.23
DBE SMEs Nekemte District	-	-	-	-	66,154.32	66,154.32	66,154.32
DBE SMEs ACSI MIF **	-	-	191,866.40	-	590,034.97	781,901.37	1,272,096.61
DBE SMEs Addis Credit & saving MIF**	-	-	-	369,828.10	353,888.11	723,716.21	723,716.21
DBE SMEs Wasasa MIF **	-	52,819.02	-	56,090.60	-	108,909.62	108,909.62
DBE SMEs Vision MIF **	-	63,614.16	9,912.83	80,797.14	396,539.67	550,863.80	558,133.99
DBE SMEs Enat Bank **	-	231,926.67	-	431,856.88	1,400,352.18	2,064,135.73	2,264,065.94
DBE SMEs United Bank **	-	191,210.20	-	597,835.25	2,511,048.57	3,300,094.01	3,772,656.32
DBE SMEs Birhan Bank **	-	-	607,109.01	607,109.01	1,280,057.88	2,494,275.90	2,494,275.90
SME Bank Change**	-	78.01	45.23	11.18	7.61	142.03	256.27
<b>Grand Total of the Project</b>	-	<b>7,335,548.53</b>	<b>6,472,616.90</b>	<b>11,217,526.94</b>	<b>17,802,584.59</b>	<b>42,828,276.96</b>	<b>59,214,901.88</b>

Financiers	Share%	of the quarter Birr	of the quarter USD
IDA Credit	100	0	0.00
GOE	0	0	0.00
<b>Total</b>	<b>100</b>	<b>0</b>	<b>0</b>

Note: For SOEs collected from MFI & Banks (\*\*) we have used the exchange rate 28.7487, which were used to transfer USD 10,000,000 from the project USD Account to the project Birr Account.

Enat Bank

25,715,842.33	27.5096	934,795.21
13,384,157.67	28.7487	465,556.97
39,100,000.00		1,400,352.18





## DEVELOPMENT BANK OF ETHIOPIA

## SMALL AND MEDIUM ENTERPRISES LEASE FINANCING PROJECT(P148447,IDA 57930)

## Consolidated Expenditures Summary (in Ethiopia Birr) (Source EIB)

For The Quarter Ended June 30,2019

Particulars	Annual Budget based on forecast (1)	1st Quarter Expenditure (2)	2nd quarter expenditure (3)	3rd quarter expenditure (4)	4th quarter expenditure (5)	Total expenditure for the year (6)	Cumulative (To date)
<b>Expenditures(Applications)</b>							
DBE SME's Addis Ababa District	-	3,194,412.58	11,744,730.34	18,074,192.70	29,895,469.20	62,908,804.81	62,908,804.81
DBE SMEs Adama District	-	-	2,927,062.10	309,897.64	166,867.18	3,403,826.92	3,403,826.92
DBE SMEs Bahirdar District	-	-	22,904,589.83	24,700,615.41	5,944,749.17	53,549,954.41	53,549,954.41
DBE SMEs Dessie District	-	-	11,129,039.86	607,451.18	-	11,736,491.04	11,736,491.04
DBE SMEs Mekelle District	-	5,568,403.17	229,837.72	2,547,062.03	-	8,345,302.92	8,345,302.92
DBE SMEs Hawassa District	-	-	6,041,729.66	-	-	6,041,729.66	6,041,729.66
DBE SMEs Dire Dawa District	-	-	14,407,189.63	7,833,453.19	1,945,854.31	24,186,497.13	24,186,497.13
DBE SMEs Butajira District	-	-	19,355,359.99	72,868.63	-	19,428,228.62	19,428,228.62
DBE SMEs Woliyata District	-	-	-	-	2,925,982.31	2,925,982.31	2,925,982.31
DBE SMEs Gondar District	-	-	-	-	230,435.42	230,435.42	230,435.42
DBE SMEs ACSI MIF	-	-	8,206,905.00	-	7,419,377.65	15,626,282.65	15,626,282.65
DBE SMEs Addis Credit & saving MIF	-	-	-	4,449,956.00	-	4,449,956.00	4,449,956.00
DBE SMEs Vision MIF	-	-	972,191.50	972,191.50	-	1,944,383.00	1,944,383.00
DBE SMEs Wasasa MIF	-	-	-	674,910.00	674,910.00	1,349,820.00	1,349,820.00
DBE SMEs Enat Bank	-	5,196,317.00	5,196,317.00	-	-	10,392,634.00	10,392,634.00
DBE SMEs United Bank	-	7,986,841.00	-	7,193,451.35	-	15,180,292.35	15,180,292.35
DBE SMEs Birhan Bank	-	-	7,305,038.00	7,305,038.00	-	14,610,076.00	14,610,076.00
SME Bank Charge	-	132.00	1,023.00	133.00	33.00	1,321.00	1,321.00
<b>Grand Total of the Project</b>	-	<b>21,946,105.75</b>	<b>110,421,013.63</b>	<b>74,741,220.63</b>	<b>49,203,678.23</b>	<b>256,312,018.24</b>	<b>256,312,018.24</b>

Financiers	Financing Share%	Actual expenditures of the quarter Birr	Actual Expenditures of the quarter USD
IDA Credit	100	0	0.00
GOE	0	0	0.00
<b>Total</b>	<b>100</b>	<b>0</b>	<b>0</b>



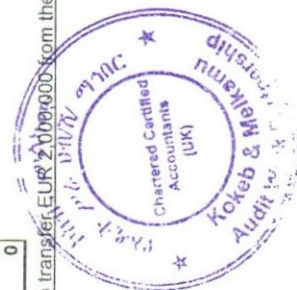
**DEVELOPMENT BANK OF ETHIOPIA**  
**SMALL AND MEDIUM ENTERPRISES LEASE FINANCING PROJECT(P148447,IDA 57930)**  
**Consolidated Expenditures Summary (in EUR) (Source EIB)**

For The Quarter Ended June 30, 2019

Particulars	Annual Budget based on forecast (1)	1st Quarter Expenditure (2)	2nd quarter expenditure (3)	3rd quarter expenditure (4)	4th quarter expenditure (5)	Total expenditure for the year (6)	Cumulative (To date)
<b>Expenditures(Applications)</b>							
DBE SME's Addis Ababa District	-	99,248.81	365,990.72	553,903.89	919,395.38	1,938,538.80	1,938,538.80
DBE SMEs Adama District	-	-	91,335.97	9,493.70	5,135.78	105,965.45	105,965.45
DBE SMEs Bahirdar District	-	-	714,468.77	759,949.89	182,834.91	1,657,253.57	1,657,253.57
DBE SMEs Dessie District	-	-	347,201.48	18,766.69	-	365,968.17	365,968.17
DBE SMEs Mekelle District	-	170,357.45	7,152.92	78,799.52	-	256,309.89	256,309.89
DBE SMEs Hawassa District	-	-	187,234.22	-	-	187,234.22	187,234.22
DBE SMEs Dire Dawa District	-	-	449,413.69	240,064.79	59,735.68	749,214.16	749,214.16
DBE SMEs Butajira District	-	-	603,708.53	2,233.10	-	605,941.63	605,941.63
DBE SMEs Woliyata District	-	-	-	-	89,668.48	89,668.48	89,668.48
DBE SMEs Gondar District	-	-	-	-	7,085.48	7,085.48	7,085.48
DBE SMEs ACSI MIF **	-	-	-	-	226,175.02	474,928.67	474,928.67
DBE SMEs Addis Credit & saving MIF**	-	-	248,753.64	-	-	134,879.44	134,879.44
DBE SMEs Vision MIF **	-	-	29,467.40	29,467.40	-	58,934.80	58,934.80
DBE SMEs Wasasa MIF**	-	-	-	20,456.72	20,574.20	41,030.92	41,030.92
DBE SMEs Enat Bank **	-	157,501.86	157,501.86	-	-	315,003.71	315,003.71
DBE SMEs United Bank **	-	242,083.44	-	218,035.57	-	460,119.01	460,119.01
DBE SMEs Birhan Bank	-	-	221,417.79	221,417.79	-	442,835.58	442,835.58
SME Bank Charge**	-	4.08	31.92	5.08	1.01	42.09	42.09
<b>Grand Total of the Project</b>	-	<b>669,195.63</b>	<b>3,423,678.93</b>	<b>2,287,473.58</b>	<b>1,510,605.94</b>	<b>7,890,954.08</b>	<b>7,890,954.08</b>

Financiers	Financing Share%	Actual expenditures of the quarter Birr	Actual Expenditures of the quarter USD
IDA Credit	100	0	0.00
GOE	0	0	0.00
<b>Total</b>	<b>100</b>	<b>0</b>	<b>0</b>

Note: For SOEs collected from MFI & Banks (\*\*) we have used the exchange rate 32.9921, which were used to transfer EUR 2,000,000 from the project EUR Account to the project Birr-Account.





# Kokeb & Melkamu Audit Partnership

Chartered Certified Accountants (UK)

December 26, 2019

SME Financing Coordinating Unit  
Development Bank of Ethiopia  
Addis Ababa

## RE: Internal Control Memorandum for Period Ended June 30, 2019

Dear Sirs,

In accordance with our appointment as auditors, we have audited the financial statements of the SME Financing Project for the year ended June 30, 2019 and we have submitted our report separately. We would like to give our findings and recommendations on certain aspects of the internal control system, and other matters which came to our attention during the course of our examination of the accounts of the SME Financing attached hereto (pages 18-25).

It must be appreciated, however, that the matters dealt with in this memorandum are based on our normal audit procedures, which were designed primarily with the view to express our opinion on the accounts of the Project taken as a whole. Therefore, our examination cannot be expected to disclose all possible weakness in internal control and to uncover all other findings, which a more extensive special examination might reveal.

We are frequently in a position to offer constructive suggestions for improvements in accounting and control procedures but our work in these areas is not designed for the purpose of expressing an opinion on the effectiveness of the various control systems and accordingly, would not extend into all areas in which improvements may be warranted. Additionally, inasmuch as our examinations do not include a 100% detailed audit of transactions, they would not necessarily disclose all irregularities, and should any exist.

We would like to express our appreciation to the management and staff of for the assistance and courtesy extended to us during the course of the audit.

We shall be pleased to provide any further explanation that may be required.

Yours faithfully,

*Kokeb & Melkamu*  
Kokeb & Melkamu Audit Partnership  
Chartered Certified Accountants (UK)  
Authorized Auditors in Ethiopia



## I. HEAD OFFICE

1. The Project Management Team does not maintain separate Loan records of lessees which are financed by DBE Districts and Branches as it does for PFI Loans. The quarterly and annual statement of the Project is prepared based on different information and reports extracted from the Bank's operational units and financial institutions report, which handle the working capital financing. As a result, we could not get complete records of leases Loans centrally at the project Management unit, list of SME' which are currently benefited from lease financing together with their loan status, list of SME's in the process of financing, the status of lease loans at the Project Management Team.

The Project Management Team has limitations in the process to recording financial transactions

Mangemnet Comment:

Separate Account: - in this regard the project has its own separate accounts for both foreign and local currency transactions. And all the information's used to prepare quarterly and annual reports are extracted from this Nostro and Vostro separate account. Information is collected from different reports and financial institutions for preparation of consolidated quarterly and annual reports as it is discussed in the finding. Mirror accounts are opened through the help of T24 (temonos) (Core banking) working environment.

Details of mirror accounts are described here under accordingly.

Description	Account opened at NBE	Mirror Account Opened at DBE	
IDA USD Account	101171300037	130722059	
EIB EUR Account	101171300042	131036701	
IDA Birr Account	101171040003	130722121	
EIB Birr Account	101171040006	131043813	
<b>Accounts opened to control transactions against International Banking Directorate</b>			
Description	Account opened at Commerz Bank/IBD	Mirror Account Opened at DBE/EFCMD	
USD Account	1200100	USD1262000010014	
EUR Account	1000100	EUR1262000010014	

However; the project coordination team does not have the privilege to see the status of individual customer loan accounts through accessing branch account officers. This results the loan management practice of the team not to be complete as the expected





level. Therefore, the project coordination team oversees the given feedback positively and try to manage branch loan accounts centrally discussing with the banks IT experts.

2. Approved consolidated annual work plan for the period is not provided. As result we could not verify whether project is performing according to its approved budget.

**Recommendation:** The PIU is required to have approved annual work plan in order to perform according to the budget and evaluate the variances and make necessary adjustment.

Management Comment: - we as a Project Management Team do have Approved Budget and Plan, which we have communicated to the stakeholders, the World Bank and The Enterprise Partners who was consulting The DBE.

3. Neither the Interim Financial Report nor other supporting documents (reports) shows the status of the lessees thus, we could not identify the position of the lessees' who did and did not start operation and begin repayment.

**Recommendation:** as per agreement until the loan is totally paid to the lender the borrower is required to revolve the principal of each repayment for the same purpose of the project so that preparing a detailed report showing their repayment status helps to follow up and use the fund as required.

Management Comment: - Actually the status of the Financed projects is followed by the other responsible Directorates; we hope they will response for this finding. But most of branch audit findings are about audited financial statement of the customers and presentation of one or two proforma invoice(s) during machinery purchase. In this regard all branches prerequisite an audited financial statements of applying customer if the customer is already established. But newly establishing customers are not obliged to bring audited financial statements; rather the financial feasibility will be forecasted during the appraisal study. Regarding the proforma invoice as it was discussed on the exit conference, the customer will not obliged to bring three proforma invoices. At least one proforma invoice is enough according to the new lease financial manual.

## II. Development Bank of Ethiopia Addis Ababa District

### General

We found in some sampled branches that the lease financing contract agreement is not authenticated. From East Addis Ababa Branch Solomon Kassa and Nared General



Trading PLC from West Addis Branch Blen & Netsanet Integrated plc and HA Plastic Factory plc.

**Recommendation:** We recommend the branches to authenticate the lease financing contract agreement and to register the items as soon as possible in order to have legal document.

West Addis Ababa Branch Management Comment:

1. **Blen & Netsanet Integrated plc**
2. **HA Plastic Factory plc.**

The reason why the lease financing contract is not authenticated for the above listed customer is the followings:-

1. Delay in machinery installation which brings in delay of signing acceptance certificate.
2. Some claims is not forwarded timely from head office which enables us to sign amendment of loan contract that is necessary for authentication.
3. Delay in Authentication of some lease financing contract by concerned body.

Howe ever, the branch currently is ready to authenticate all above listed lease financing contract agreement and items registration in the coming few days.

Management Comment: Noted

### III. EAST ADDIS ABABA BRANCH

Customer Name: - **Solomon Kassa**

The client's external auditor's opinion was not considered in granting the loan, that in 2008 E.C report the auditor showed his doubt in the correctness of the total sales amounting to Birr 1,404,165.61 and cash recordings. Moreover, the audit report shows that the company could not recover from its loss incurred in 2014 up to 2017 and the audit report for the periods of FY 2018 & 2019 were not presented so that at the time of granting the loan the creditworthiness of the company could not be justified.

**Recommendation:** We recommend that proper and a thorough analysis should be made when grating loans.

East Addis Ababa Branch Response: - Customer name: **Solomon Kassa** /Malanga Processed Coffee / is a sole proprietorship owned by Ato **Solomon Kassa** has summited his audited Financial Statements during Lease request application.





Description	2015yr	2016yr	2017yr	2018yr
Sales	1,119,097	1,404,166	1,423,880	1,658,111
Gross Profit	768,305	1,042,103	957,750	1,179,939
Other Expense	652,741	976,502	741,788	734,053
Profit for the Year	115,564	65,601	215,962	445,886
Loss carried forward	-247,373	-196,782	-139,195	520,288
Prior Year Adjustment				355,157

As per submitted audited financial performance of the company pas year we observed the encouragement of the product sales increasing year to year the company earned a substantial profit. Indeed the company incurred loss the fiscal year 2014. But the company paid profit tax for each years from 2016 up to 2018 and also covered the company carried forward loss on the year of 2018 completely and the progress of the company has good performance incurred.

A new contract agreement is signed between the Bank and the promoter own December 27, 2019 and the contract registration is on progress.

Customer Name: - **Nared General Trading PLC**

We appreciate the recommendation given regarding the above mentioned customer.

#### IV. HAWASA DBE BRANCH

*(W. Z. Adhamene)*

**Mohammed Sani Kedir** -Loan amount: 29,018,884

a. We observed that latest fiscal year audited financial statement is not available.

**Recommendation:** We recommend the Branch to collect latest audit report before the disbursement of the loan.

b. We noted that the client collects only two proforma for the purchase of the machinery

**Recommendation:** We recommend the Branch to inquire audited financial statement and to study at least three profoma quotes before the approval of the loan.

**Management Comment:** In this regard all branches prerequisite an audited financial statements of applying customer if the customer is already established. But newly establishing customers are not obliged to bring audited financial statements; rather the



financial feasibility will be forecasted during the appraisal study. Regarding the proforma invoice as it was discussed on the exit conference, the customer will not have obliged to bring three proforma invoices. At least one proforma invoice is enough according to the new lease financial manual.

Auditors further comments: *The borrowers are at minimum required to form a business and inject a capital, which should be ascertained by an external auditor. Quotes should be obtained at least from three suppliers to protect the bank from over-financing or establish a reference system which help prevent over invoicing.*

#### V. ADAMA BRANCH DBE

We observed that a borrower/lessee (Sorro Macaroni Factory with loan amount Birr 30,000,000) has received the machine six months ago but the operation has not yet started due to the lessees has modified its project.

Ref: Sorro Macaroni factory loan amount Birr 30,000,000

**Recommendation:** The lease procedure of the bank states that the lease interest is to be calculated from the commencement of production. Therefore, we recommend that the bank need to force the client to start operation as per their project plan at any condition.

Adama Branch Management Comment: - Sorro Macaroni factory received its machinery six months ago however; it took long time to get Electric Power due to failure to supply a transformer by Ethiopian Electric Light and Power Corporation Adama District. But now the client has got power and signed acceptance certificate and the project started operation

#### VI. BAHIRDAR DBE BRANCH

- a. We noted that Lease financing was made by DBE Bahirdar to Zelalem, Frehiwot & Co total amount of USD 175,750.00. However, we were unable to find appropriately collected proforma invoice for purchase of machinery. In addition, we could not find any audited financial statement as required by the National bank of Ethiopia





**Recommendation:** We recommend the Branch to inquire audited financial statement and to study at least three proforma quotes before the approval of the loan.

- b. We noted that Lease financing made by DBE Abema PLC total amount of 591,640 Euro, we were unable to find appropriately collected proforma invoice for purchase of machinery.

**Recommendation:** The branch should conduct its operation on the basis of procedure credit procedure

**Adama Branch Response: -**

1. Zelalem Frehiwot and their friends S.C.:-

- Initially the customers are registered as Micro enterprise and works on furniture and metal workshop. So having this, the S.C was not expected to submit audited financial statement as they engaged on small business.
- Regarding the proforma Invoice on lease financing policy January 2016, article 5.6 sub article 5.6.2. Says The Bank shall enter sale-purchase agreement with manufacturer or supplier based on the selected proforma presented by the applicant. Because responsibility regarding any shortcomings and defects to the asset to be purchase and leased falls on the customer. Accordingly the Bank was evaluated the proforma invoice submitted by the promoter from Guangdong Liansu Machinery Manufacturing CO.LTD based on proforma invoice No. LS-SEA-P20171018-07(63PE) Dated On 2018-03-21.

2. Abema Industrial Manufacturing P.L.C:-

- The proforma invoice was collected by the promoter from Zhejiang Weiying Intelligent Technology corp. Ltd, based on proforma invoice No. 2017WY039 dated on 08/02/2019 for Main Macine and Generator from VEHEQUIP L.L.C. based on proforma invoice No. Q030R1-M02-2019 dated on 20/02/2019. Accordingly the Bank was evaluated the proforma invoice as per the Banks policy and procedure and purchase the required machine as per the customer's order.



➤ **ASSELA DBE BRANCH**

**Dechasa Gameda-** Loan amount: Birr 30,000,000

- c. Failure to collect revenue stamp

**Recommendation:** The branch should contact the applicant so as to arrive on appropriate solutions on these irregularities of the audit findings collecting revenue stamp fees.

- d. We observed that latest fiscal year audited financial statement is not available.

**Recommendation:** We recommend the Branch to collect latest audit report before the disbursement of the loan.

- e. We noted that the client collects only one proforma for the purchase of the machinery

**Recommendation:** We recommend the Branch to collect at least three profoma before the approval of the loan

➤ **Debreziet/BISHOFTU/ Branch**

- f. During our audit we did not obtain complete information about the client lease loan repayment and the loan status.

**Recommendation:** The branch should provide necessary information.

**Bishoftu Branch Management Comment:** - Even though the Auditors finding does not state specifically the name of the lease on its finding to check /solve/ the problem, all our branches lease financing project have complete information pertaining to loan repayment status so any one who wish to see it the information is easily accessible from the banks t-24 system. Therefore, as per our opinion the stated finding which is presented by the auditor did not reflect our branches' lease financing project operation.

VII. **UNITED BANK-HAWASSA BRANCH**

**Nasir Usman-** Loan amount: 4,200,000

- g. The borrower pledged factory building but we could not obtain pledge contract the title deeds of collateral





**Recommendation:** We strongly urge that this should be looked into.

**VIII. ENAT BANK-HAWASSA Branch**

**Zekarias Dagne-** Loan amount: Birr 2,500,000

Loan status-Substandard

**Recommendation:** We recommend that follow up tasks a head of repayment of the loan facility must be adhering with the terms and conditions stated on contract agreement

We observed that renewed trade license and registration certificate was not available

**Recommendation:** We advise the branch to collect renewed trade license before the approval of the loan.

**Management Comment:** Noted.

