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**AUDIT SERVICES
CORPORATION**

DEVELOPMENT BANK OF ETHIOPIA
ELCTRICITY NETWORK REINFORCEMENT
AND EXPANSION PROJECT
IDA CREDIT NOs. 5126 ET, PARTS 3.1, 3.2, 4.2 and 4.3
AND 5814 ET, PARTS 3.1 and 3.2
AND IDA GRANT NO. TF A 2302
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
30 JUNE 2017



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The Federal Democratic Republic of Ethiopia
Audit Services Corporation

**INDEPENDENT AUDITOR'S REPORT
TO DEVELOPMENT BANK OF ETHIOPIA**

We have audited the accompanying financial statements of Development Bank of Ethiopia, Electricity Network Reinforcement and Expansion Project, financed under IDA credit no. 5126 ET, Parts 3.1, 3.2, 4.2 and 4.3; IDA credit no. 5814 ET, Parts 3.1 and 3.2; and Grant TF A2302, which comprise the balance sheet as at 30 June 2017, and the statement of sources and uses of funds and Designated Account statements for the year then ended, and a summary of significant accounting policies and other explanatory information and annexes 1 to 4.

Managements' Responsibility for the Financial Statements

Management is responsible for preparation of financial statements that give a true and fair view under the modified cash basis of accounting as described in note 2 to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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**INDEPENDENT AUDITOR'S REPORT
TO DEVELOPMENT BANK OF ETHIOPIA (continued)**

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Development Bank of Ethiopia, Electricity Network Reinforcement and Expansion Project, financed under IDA credit no. 5126 ET, Parts 3.1, 3.2, 4.2 and 4.3; IDA credit no. 5814 ET, Parts 3.1 and 3.2; and Grant TF A2302, as at 30 June 2017 and of its sources and uses of funds for the year then ended in accordance with the modified cash basis of accounting described in note 2 to the financial statements.

Report on Other Requirements

In our opinion,

- during the period IDA and Trust funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
- goods, works and services financed have been procured in accordance with the relevant financing agreements including specific provisions of the World Bank Procurement Policies and Procedures;
- all necessary supporting documents, records and accounts have been maintained in respect of all Project activities;
- The Designated Accounts have been maintained in accordance with the provisions of the relevant financing agreements and funds disbursed out of the Accounts were used only for the purpose intended in the financing agreements;
- national laws and regulations have been complied with; and
- except in MFI 3, the financial performance of the project was satisfactory.

Audit Services Corporation

22 December 2017

DEVELOPMENT BANK OF ETHIOPIA
 ELECTRICITY NETWORK REINFORCEMENT AND
 EXPANSION PROJECT
 IDA CREDIT NO. 5126 ET, parts 3.1, 3.2, 4.2 and 4.3
 IDA CREDIT NO. 5814 ET, parts 3.1 and 3.2
 GRANT TF A2302
 STATEMENT OF SOURCES AND USES OF FUNDS
 FOR THE YEAR ENDED 30 JUNE 2017

	2017 Ethiopian Birr	Cumulative from 12 June 2012 to 30 June 2017 Ethiopian Birr	2016 Ethiopian Birr
FINANCING			
Gain on foreign exchange	2,216,358	19,312,876	2,537,553
Interest income	<u>12,957,883</u>	<u>36,320,711</u>	<u>11,558,101</u>
TOTAL FINANCING	<u>15,174,241</u>	<u>55,633,587</u>	<u>14,095,654</u>
PROJECT EXPENDITURES			
Modernization support	4,248,492	13,269,402	1,152,168
Interest expense	<u>6,013,394</u>	<u>18,189,799</u>	<u>4,849,634</u>
TOTAL PROJECT EXPENDITURES	<u>10,261,886</u>	<u>31,459,201</u>	<u>6,001,802</u>
EXCESS OF FINANCING OVER EXPENDITURES	<u>4,912,355</u>	<u>24,174,386</u>	<u>8,093,852</u>

DEVELOPMENT BANK OF ETHIOPIA
 ELECTRICITY NETWORK REINFORCEMENT AND
 EXPANSION PROJECT
 IDA CREDIT NO. 5126 ET, parts 3.1, 3.2, 4.2 and 4.3
 IDA CREDIT NO. 5814 ET, parts 3.1 and 3.2
 GRANT TF A2302
 BALANCE SHEET
 AS AT 30 JUNE 2017

	Notes	2017 Ethiopian Birr	2016 Ethiopian Birr
<u>ASSETS</u>			
NON-CURRENT ASSETS			
Long term loans		<u>119,079,095</u>	<u>102,083,906</u>
CURRENT ASSETS			
Cash	3	133,983,607	81,312,471
Short term loans		23,996,242	76,644,033
Debtors	4	<u>208,515,778</u>	<u>84,564,727</u>
		<u>366,495,627</u>	<u>242,521,231</u>
TOTAL ASSETS		<u>485,574,722</u>	<u>344,605,137</u>
<u>LIABILITIES</u>			
GRANT	5	11,433,700	-
LONG TERM LIABILITIES			
Long term loan	6	447,341,352	323,308,954
CURRENT LIABILITIES			
Ministry of Finance and Economic Cooperation		<u>2,625,284</u>	<u>2,034,152</u>
TOTAL LIABILITIES		<u>461,400,336</u>	<u>325,343,106</u>
NET ASSETS		<u>24,174,386</u>	<u>19,262,031</u>
<u>REPRESENTED BY</u>			
ACCUMULATED FUND		<u>24,174,386</u>	<u>19,262,031</u>

DEVELOPMENT BANK OF ETHIOPIA
ELECTRICITY NETWORK REINFORCEMENT AND EXPANSION PROJECT
IDA CREDIT NO. 5126 ET, PARTS 3.1, 3.2, 4.2 and 4.3
IDA CREDIT NO. 5814 ET, PARTS 3.1 and 3.2
GRANT TF A2302
NOTES TO THE FINANCIAL STATEMENTS

1 PROJECT INFORMATION

The Project was established to implement specific parts of IDA credit No. 5126 ET which is jointly financed by the Government of the Federal Democratic Republic of Ethiopia and the International Development Association (IDA). The main objective of these parts of the Project is the establishment and operation of credit facilities providing financing to participating financing institutions and private sector enterprises for specific development projects concerned with renewable energy and energy efficient products. In June 2016, additional finance was provided by IDA credit No. 5814 ET and a grant (TF A2302) from the Trust Fund for Energy SME Support in Sub-Saharan Africa. Under the terms of the new financing agreements, some parts of the Project are carried out in coordination with the Ministry of Water, Irrigation and Electricity.

2 SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

These financial statements have been prepared on a modified cash basis whereby non-monetary assets are expensed when acquired and monetary assets and liabilities are carried at fair value.

b) Currency

These financial statements are presented in Birr. Transactions in foreign currency are translated into Birr at the approximate rate of exchange prevailing at the date of the transaction. Cash balances denominated in foreign currencies are translated into Birr at the exchange rates ruling at the balance sheet date.

3 BANK BALANCES

	2017 Ethiopian Birr	2016 Ethiopian Birr
National Bank of Ethiopia-		
A/c No. 0261515600000	18,851,101	3,509,880
A/c No. 0200011040002	56,812,653	77,802,591
A/c No.101171300038	46,678,400	-
A/c No.101171300039	<u>11,641,453</u>	=
	<u>133,983,607</u>	<u>81,312,471</u>

DEVELOPMENT BANK OF ETHIOPIA
 ELECTRICITY NETWORK REINFORCEMENT AND EXPANSION PROJECT
 IDA CREDIT NO. 5126 ET, parts 3.1, 3.2, 4.2 and 4.3
 IDA CREDIT NO. 5814 ET, parts 3.1 and 3.2
 GRANT TF A2302
 NOTES TO THE FINANCIAL STATEMENTS

	2017 Ethiopian Birr	2016 Ethiopian Birr
4 DEBTORS		
Intra-bank account	205,452,953	81,228,895
Interest receivable	3,034,583	3,335,832
Other	28,242	=
	<u>208,515,778</u>	<u>84,564,727</u>

5 GRANT

Withdrawn amount of a grant of five million United States dollars, representing the proceeds from USD 500,000.

11,433,700

=

6 LONG TERM LOAN

Ministry of Finance and Economic Cooperation

Unsecured loan, on-lent from IDA, bearing interest at the rate of 1.5% per annum, and repayable in 40 semi-annual instalments of Birr 11,183,534 each from June 2022 through December 2041.

7 DATE OF AUTHORIZATION

The President of the Bank authorized the issue of these financial statements on 22 December 2017.

DEVELOPMENT BANK OF ETHIOPIA
ELECTRICITY NETWORK REINFORCEMENT AND
EXPANSION PROJECT
IDA CREDIT NO. 5126 ET, parts 3.1, 3.2, 4.2 and 4.3
IDA CREDIT NO. 5814 ET, parts 3.1 and 3.2
GRANT TF A2302
DESIGNATED ACCOUNT STATEMENT

For period ended 30 June 2017
 Account number 026151560000
 Depository bank National Bank of Ethiopia
 Address Addis Ababa, Ethiopia
 Related credit IDA 5126 ET
 Currency USD

	USD	Equivalent in Ethiopian Birr
Opening balance at 30 June 2016	159,406.69	3,509,880.26
Add: Reimbursements from World Bank	<u>3,577,721.19</u>	<u>78,387,142.05</u>
	3,737,127.88	81,897,022.31
Less: Payments for loan disbursements and expenses	<u>2,929,426.62</u>	<u>64,038,083.59</u>
	807,701.26	17,858,938.72
Add: Gain on foreign exchange	=	<u>992,162.53</u>
Ending balance at 30 June 2017	<u>807,701.26</u>	<u>18,851,101.25</u>

DEVELOPMENT BANK OF ETHIOPIA
ELECTRICITY NETWORK REINFORCEMENT AND
EXPANSION PROJECT
IDA CREDIT NO. 5126 ET, parts 3.1, 3.2, 4.2 and 4.3
IDA CREDIT NO. 5814 ET, parts 3.1 and 3.2
GRANT TF A2302
DESIGNATED ACCOUNT STATEMENT

For period ended	30 June 2017
Account number	101171300038
Depository bank	National Bank of Ethiopia
Address	Addis Ababa, Ethiopia
Related credits	IDA 5216 ET; IDA 5814 ET
Currency	USD

	USD	Equivalent Birr
Initial deposit	2,000,000.00	45,690,200.00
Add: Gain on foreign exchange	=	<u>988,200.00</u>
Ending balance at 30 June 2017	<u>2,000,000.00</u>	<u>46,678,400.00</u>

DEVELOPMENT BANK OF ETHIOPIA
ELECTRICITY NETWORK REINFORCEMENT AND
EXPANSION PROJECT
IDA CREDIT NO. 5126 ET, parts 3.1, 3.2, 4.2 and 4.3
IDA CREDIT NO. 5814 ET, parts 3.1 and 3.2
GRANT TF A2302
DESIGNATED ACCOUNT STATEMENT

For period ended 30 June 2017
Account number 101171300039
Depository bank National Bank of Ethiopia
Address Addis Ababa, Ethiopia
Related credit / grant IDA 5126 ET; TF A2302
Currency USD

	USD	Equivalent in Ethiopian Birr
Initial deposit	500,000.00	11,433,700.00
Less: Payments for expenses	<u>1,206.00</u>	<u>28,242.35</u>
	498,794.00	11,405,457.65
Add: Gain on foreign exchange	-	<u>235,995.27</u>
Ending balance at 30 June 2017	<u>498,794.00</u>	<u>11,641,452.92</u>

DEVELOPMENT BANK OF ETHIOPIA
ELECTRICITY NETWORK REINFORCEMENT AND EXPANSION PROJECT
IDA CREDIT NO. 5126 ET, parts 3.1, 3.2, 4.2 and 4.3
IDA CREDIT NO. 5814 ET, parts 3.1 and 3.2
GRANT TF A2302
PROJECT RECEIPTS AND USE OF FUNDS
FOR THE YEAR ENDED 30 JUNE 2017

	2017 Ethiopian Birr	Cumulative from 12 June 2012 to 30 June 2017 Ethiopian Birr	2016 Ethiopian Birr
RECEIPTS			
Deposits to Designated Accounts	135,466,098	458,775,052	-
Loans to beneficiaries repaid - Annex 4 note a)	91,599,251	198,308,812	55,500,414
Gain on foreign exchange	2,216,358	19,312,877	2,537,553
Interest received, net of paid - Annex 4 note b)	<u>7,836,871</u>	<u>17,721,613</u>	<u>6,421,106</u>
TOTAL RECEIPTS	<u>237,118,578</u>	<u>694,118,354</u>	<u>64,459,073</u>
USE OF FUNDS - ANNEX 2			
Part 3.1 Loans provided to eligible household/ subcredit recipients by MFI's	42,061,233	105,733,445	60,505,953
Part 3.2 Loans provided to eligible private sector enterprises	53,234,586	197,709,066	75,886,805
Under proforma	47,640	47,640	-
Part 4.2 Modernization Support	609,310	9,630,220	1,152,168
Part 4.3 Outreach programme - MOWIE	<u>3,639,182</u>	<u>3,639,182</u>	-
TOTAL PAYMENTS	<u>99,591,951</u>	<u>316,759,553</u>	<u>137,544,926</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER USE OF FUNDS	<u>137,526,627</u>	<u>377,358,801</u>	<u>(73,085,853)</u>
REPRESENTED BY			
Cash at Bank - Designated Accounts		77,170,954	
Cash at Bank - Local Account		56,812,653	
Receivable from Development Bank of Ethiopia - Annex 4 - note c)		205,452,953	
Advances to MFI's & PSI's, as yet unutilized - Annex 3		37,893,999	
Other receivable (Carbon Finance training)		<u>28,242</u>	
		<u>377,358,801</u>	

DEVELOPMENT BANK OF ETHIOPIA
 ELECTRICITY NETWORK REINFORCEMENT AND EXPANSION PROJECT
 IDA CREDIT NO. 5126 ET, parts 3.1, 3.2, 4.2 and 4.3
 IDA CREDIT NO. 5814 ET, parts 3.1 and 3.2
 GRANT TF A2302

	2017 Ethiopian Birr	Cumulative from 12 June 2012 to 30 June 2017 Ethiopian Birr	2016 Ethiopian Birr
USE OF FUNDS BY PROJECT COMPONENT			
Component 3.1 MFI's			
Loans provided to eligible household/ subcredit recipients by MFI 1 (OCSCO)	5,000,000	6,763,498	898,635
Loans provided to eligible household/ subcredit recipients by MFI 2 (Wasasa)	127,248	5,793,892	3,365,248
Loans provided to eligible household/ subcredit recipients by MFI 3 (DECSI)	2,616,400	5,499,170	2,882,770
Loans provided to eligible household/ subcredit recipients by MFI 4 (ACSI)	12,500,000	60,671,500	48,171,500
Loans provided to eligible household/ subcredit recipients by MFI 5(OMO)	19,812,200	25,000,000	5,187,800
Loans provided to eligible household/ subcredit recipients by MFI 6(SPECIALIZED.F)	1,224,940	1,224,940	=
Loans provided to eligible household/ subcredit recipients by MFI 7(HARBU.MF)	720,445	720,445	=
Loans provided to eligible household/ subcredit recipients by MFI 8(PEACE)	60,000	60,000	=
Loans provided to eligible household/ subcredit recipients by MFI 9(AGAR MF)	=	=	=
Loans provided to eligible household/ subcredit recipients by MFI 10(VISION)	=	=	=
Loans provided to eligible household/ subcredit recipients by MFI 11(MEKLIT)	=	=	=
Sub total	<u>42,061,233</u>	<u>105,733,445</u>	<u>60,505,953</u>

DEVELOPMENT BANK OF ETHIOPIA
ELECTRICITY NETWORK REINFORCEMENT AND EXPANSION PROJECT
IDA CREDIT NO. 5126 ET, parts 3.1, 3.2, 4.2 and 4.3
IDA CREDIT NO. 5814 ET, parts 3.1 and 3.2
GRANT TF A2302

	2017 Ethiopian Birr	Cumulative from 12 June 2012 to 30 June 2017 Ethiopian Birr	2016 Ethiopian Birr
3.1 MFI's - sub total	<u>42,061,233</u>	<u>105,733,445</u>	<u>60,505,953</u>
Component 3.2 PSE's			
DAMA Trade	22,356,682	53,200,910	21,242,825
DAMA Trade-pro forma	47,640	47,640	-
Universal Electronics	9,318,043	22,695,715	-
Rensys Engineering and Trade		6,088,666	1,571,978
EZOP- EL Engineering PLC	-	298,031	-
Vera International Business		83,215,968	43,936,415
Biftu Adugna Business SC	15,962,271	21,721,060	5,758,789
Lydet Co. PLC	3,397,590	8,288,716	3,376,798
Genet Nigussie (ETHIO-ADD)	2,200,000	2,200,000	-
Sub total	<u>53,282,226</u>	<u>197,756,706</u>	<u>75,886,805</u>
Component 4.2 Modernization Support			
Training and workshops	-	6,796,176	-
Operating costs	609,310	2,834,044	1,152,168
Sub total	<u>609,310</u>	<u>9,630,220</u>	<u>1,152,168</u>
Grand Total	<u>95,952,769</u>	<u>313,120,371</u>	<u>137,544,926</u>

DEVELOPMENT BANK OF ETHIOPIA
 ELECTRICITY NETWORK REINFORCEMENT AND EXPANSION PROJECT
 IDA CREDIT NO. 5126 ET, parts 3.1, 3.2, 4.2 and 4.3
 IDA CREDIT NO. 5814 ET, parts 3.1 and 3.2
 GRANT TF A2302
 ANALYSIS OF LOANS TO MFI's AND PSE's

	<u>Beginning advance balance ETB</u>	<u>Advances to MFI's ETB</u>	<u>Loans provided to beneficiaries/ subcredits by MFI's ETB</u>	<u>Ending advance balance ETB</u>
To MFI's				
MFI 1 OCSSCO	-	5,000,000	5,000,000	-
MFI 2 Wasasa	-	1,250,000	127,249	1,122,751
MFI 3 DECSI	22,117,230	-	2,616,400	19,500,830
MFI 4 ACSI		12,500,000	12,500,000	-
MFI 5 OMO Microfinance	19,812,200	-	19,812,200	
MFI 6 SPECIALIZED.F		1,250,000	1,224,940	25,060
MFI 7 HARBU.MF		1,250,000	720,445	529,555
MFI 8 PEACE		1,250,000	60,000	1,190,000
MFI 9 AGAR MF		1,250,000		1,250,000
MFI 10 VISION		2,500,000		2,500,000
MFI 11 MEKLIT		1,250,000		1,250,000
Sub-total	<u>41,929,430</u>	<u>27,500,000</u>	<u>42,061,233</u>	<u>27,368,197</u>
To PSE's				
	<u>Beginning advance balance</u>	<u>Loans made (LC opened etc) by DBE</u>	<u>PSE documents or invoices obtained/ LC cancelled</u>	<u>Ending advance balance</u>
PSE 1 Dama Trade	4,483,476	28,446,649	22,356,682	10,573,443
DAMA Trade-pro forma			47,640	(47,640)
PSE 2 Universal Electronics	9,318,043		9,318,043	-
PSE 7 Lydteo PLC	3,397,589		3,397,589	-
PSE 10 Biftu Adugna	15,962,271		15,962,271	-
PSE 11 Getnet Nigussie	<u>2,200,000</u>		<u>2,200,000</u>	-
Sub-total	<u>35,361,380</u>	<u>28,446,649</u>	<u>53,282,226</u>	<u>10,525,803</u>
Grand Total	<u>77,290,810</u>	<u>55,946,649</u>	<u>95,343,459</u>	<u>37,893,999</u>

DEVELOPMENT BANK OF ETHIOPIA
ELECTRICITY NETWORK REINFORCEMENT AND EXPANSION PROJECT
IDA CREDIT NO. 5126 ET, parts 3.1, 3.2, 4.2 and 4.3
IDA CREDIT NO. 5814 ET, parts 3.1 and 3.2
GRANT TF A2302

a) LOANS TO BENEFICIARIES REPAID

Loans provided to eligible private sector enterprises are short term. This is the total amount repaid through 30 June 2017.

b) INTEREST RECEIVED, NET OF PAID

Interest is charged on loans given to beneficiaries and is payable at a lower rate of interest to the Ministry of Finance and Economic Cooperation under a subsidiary loan agreement.

c) RECEIVABLE FROM DEVELOPMENT BANK OF ETHIOPIA

This balance is an intra-bank account which the Project has with the banking division of the Bank. It is comparable to cash at bank.