**Progress Brief on LED Project (#00082517) Implementation in 2nd Quarter (Apr-Jun) 2014**

**UNDAF Outcome #2 (Atlas Outcome #36):** *By 2015, private sector-led Ethiopian manufacturing and service industries, especially small and medium enterprises, sustainably improved their competitiveness and employment creation potential*

**Overall Project Objective:** T*o promote inclusive growth and create productive employment opportunities for women and youth through creating enabling environment, developing capacities of the relevant public, private sectors and civil societies and targeted intervention****.***

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|  **#** | **Planned Activity Results/Action Points** **(as per the AWP)** | **Allocated amount ($)**  | **Spent/Advanced ($)** | **Major Achievements** |
| **UNDAF/Programme Output 1:** *Government's policy review and regulatory capacity in selected sectors strengthened for increased private investment in micro, small and medium enterprises (MSMEs)***Targets:** a) Endorsed **Inclusive Micro-finance Strategies** for 20 new cities; b) Endorsed **capacity needs and assets strategies** of MSE, Revenues, Investment Offices, TVETs and Chambers in selected localities in place for implementation; and c) Set up/strengthened and institutionalized the **multi-stakeholder LED management structures** and LED **Units** in 27 LED cities and 5 regions  |
| 1 | Development of inclusive Micro-finance Strategies and **institutional capacity needs and assets strategies** for creating enabling environment for private sector development, revenue generation, investment promotion and entrepreneurship skills development  | 0 | 0 | * There was no planned activity in the period.
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| 2 | Institutionalizing/strengthening multi-stakeholder framework and LED management/coordination capacities of CAs, BoFED, FeMSEDA/MoFED to lead the economic development initiatives effectively**Action:** Provide technical and management support to the key institutions**Action:** Procure minimum office assets**Action:** Recruit 2 Monitoring Specialists to be fielded in FeMSEDA**Action:** Undertake quarterly reviews**Action:** Undertake monitoring of the activities at all levels**Action:** Administrative and operations expenses  | 214,702 | 221,553 | * Two Project M&E Specialists were recruited and stationed at FeMSEDA. They have monitored progresses in twenty LED localities and provided feedbacks and technical supports since July.
* Thirty two LED staffs, regional coordinators and LED experts as well as 27 officials from the cities, were trained in November and enhanced their understanding on Result Based Management and Reporting, LED Concepts and Approaches and Cluster Development.
* Twenty motorbikes were provided to the new LED cities to enhance project implementation efficiency as used by some experts.
* All the 27 cities joined the event of Cities Week in Bahir Dar and presented their activities in November. It helped share experience and establish networking.
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|  | **Sub-Total:** | **$ 214,702** | **$ 221,553** |  |
| **UNDAF/Programme Output 2:** *Private sector support-giving institutions and MSMEs have improved skills, knowledge, technological capacity and linkages with TVETs and research institutions* **Targets:** a) **8 functional BDRCs** in 8 new localities; and b) At least 100 people (50% women)/BDRC/annum benefitted by using the products and services of BDRCs in business development, jobs counseling, placement and ICT  |
| 3 | Setting up and strengthening of BDRC for promotion of ICT, business and jobs placement services**Action:** Conduct planning/orientation workshops regularly to develop action plans for BDRC and orient the professionals accordingly. | 0 | 0 | * Out of the 10 cities that were supposed to establish BDRCs in the LED 2nd Generation, 5 cities opened in this reporting period. As a result, total of 16 BDRCs, including the 7 BDRCs in the 1st Generation, are providing ICT, training and job placement services with the aim to facilitate job creation and business development.
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|  | **Sub-Total:** | **$0** | **$0** |  |
| **UNDAF/Programme Output 3:** *Value chain and Cluster for MSMEs developed and implemented in selected economic sectors***Targets:** a) Endorsed **Cluster Development Framework/ guideline** and **Strategy/ Action Plan**; and b) **At least 1 priority sector selected** for cluster development in 4 localities in 4 regions; and c) One multi-stakeholder coordination mechanism set up in each selected cluster locality; and consensus built on cluster development  |
| 10 | Cluster Development intervention with FeMSEDA (Development of Cluster Framework/Guidelines, Strategy and capacity development initiatives)**Action:** Develop a Framework and a Strategy, through consultative process**Action:** Build consensus, develop skills amongst the key stakeholders for the use of cluster framework and implementation of strategy  | 97,000 | 70,056 | * International Consultant for National Cluster Development Guideline worked in Ethiopia from 19 August 2013 until 18 September. The final draft was submitted to FeMSEDA.
* Public bidding was made for development of cluster development strategy, but no consultant company cleared both the technical and financial screening.
* As no company had cleared, selection of four pilot clusters, one from each region was done by the regional governments, the city administrations and FeMSEDA with support by the progamme support unit.
* In the selection process, all the 27 cities had raised the candidate clusters and the four clusters as below were chosen.

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| Region | Selected city | Selected products |
| Oromia | Bishoftu | Poultry |
| Amhara | Dessie | Textile and Garment |
| SNNPR | Mizan Aman | Fruits Processing |
| Tigray | Adigrat | Metal & Wood Work |

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|  | **Sub-Total:** | **$97,000** | **$70,056** |  |
| **UNDAF/Programme Output 4:** MSMEs have improved access to financial services **Target:** a) Pro-poor LED Fund and collateral guarantee mechanism set up and functional for SME development in each new locality; b) At least 75 needy people (50% women) benefitted from LED Fund/micro-finance and collateral guarantee mechanism in each new locality; and c) At least 2oMSEs strengthened or/and created in each new locality |
| 11 | Setting up/ strengthening pro-poor and competitive LED Funds and their management mechanism and Collateral Guarantee mechanism (non-financial) in place in the new LED localities, in line with the developed inclusive micro-finance strategies* + **Action:** Implement the strategies; provide micro-finance capital grants to the needy people, through collateral guarantee mechanism
 | 0 | 0 | * All the LED Fund distributed so far has been transferred to the MSEs through MFIs in all cities except for Dire Dawa.
* Monthly reporting of repayment rate from all the cities started. The reporting format had been developed and was distributed to cities. The first submission was in the end of December 2013.
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|  | **Sub-Total:**  | **$0** | **$0** |  |
|  | **TOTAL:** |  **$311,702** | **$291,609** |  |

1. **Budget Delivery Status in 2013**

**Total Project Budget**: $1,950,000

**Expenditure**: $1,929,908(As at 24 Jan 2014)

**Delivery: 99%**

1. **The largest Challenge: Low Repayment Rate of LED Fund**
2. **Low repayment rate**: The total repayment rate has improved from 18% in the end of 1st Generation of LED to 34%, but the repayment rate on schedule is 56% which is much lower than that of ordinary MFI loans, around 95%.

**Graph of Repayment rate in all cities**

Note: 11 cities have no rate (4 cities are in full grace period and 7 cities did not send proper reports.)

1. **Bad Effects of the low rate:**
	* To make the LED Fund unsustainable
	* To make moral hazards among debtors of ordinary MFI loans
	* To give an impression that the funds from the UN organizations do not need to be repaid.
2. **The major reasons**:
	* The selection of competitive MSEs and follow-up by City Administrations are weak, The MFIs do not follow the debtors strongly either, because in no city they take default risk. Since the interest rate is 10% which is lower than general rate of around 16% in many cities, the MFIs rejected to take the risk and just transfer the money from City Admin to the beneficiaries.
	* Follow-up of the repayment rate was not done in any level of the programme until the middle of 2013.
3. **Possible solution:**
	* Monthly follow-up of the situation started with submission of reports from all cities in December 2013. (However, most of cities didn’t submit the report on time.)
	* Importance of repayment rate and reporting of it should be emphasized in an official communication from MoFED to all regions and cities.
	* From EFY 2007, distribution of additional LED Fund should be decided based on current repayment rate. Distribution of fund allocated in Q3 of EFY2006 is currently withheld considering the repayment situation. However, as it takes time to re-distribute the amount and distribution is necessary to process salary of staffs, it is recommended that distribution in the Q3 is done according to the AWP and redistribution based on repayment rate is considered in EFY2007.
	* It should be recommended that the MoUs between the City Administrations and the MFIs should be revised so that the MFIs take a part of the default risk, hopefully 50% minimum 25%. The interest rate can be flexibly negotiated about and agreed in between 10% and the general interest rate adopted by the MFIs.
4. **Other Challenges:**
5. **Challenges about institutional capacity building**
* High turnover of experts and regional coordinators.
* Capacity of new staffs should be strengthened through group training and business trips of M&E experts and program support unit staffs.
* The M&E experts couldn’t visit cities as many times as planned, because of shortage of fund advanced to FeMSEDA and the office vehicles deployed. In order to solve the issue, the amount of advance to FeMSEDA should be increased in the AWP. Deployment of office vehicles should also be assured.
* The political will of CAs and key stakeholders is declining, which results in decline of support by steering committees, monitoring visits and the review meetings.
1. **Challenges about BDRCs**
	* The BDRC in Mekelle is temporarily closed for renovation. The progress is to be followed.
	* The BDRC in Adama is not open yet. The progress of the preparation is to be followed.
	* The BDRC in Alamata and Axum do not have internet access. The progress is to be followed.
2. **Challenges about cluster development**
	* Misunderstanding about the concept of industrial clusters is prevalent all over the country. Many government officials and private people call public shades as clusters. The correct concept should be repeatedly emphasized in cluster related workshops. The efforts of FeMSEDA and ReMSEDAs outside the programme should also continue.