

Development Bank of Ethiopia



A SHORT GUIDE TO ACCESS DBE'S
LOANS

1. Introduction

The Development Bank of Ethiopia (DBE) is one of the financial institutions engaged in providing short, medium and long term development credits. DBE's distinguishing feature is its "Project" based lending tradition. Projects financed by the Bank are carefully selected and prepared, thoroughly appraised, closely supervised and systematically evaluated.

Since its establishment in 1909, the Bank has been playing a significant role in promoting the over all economic development of the country.

The Bank's organizational set-up comprises a Supervisory Agency, a Management Board, a President and the necessary staff pursuant to the public enterprise proclamation No. 25/1992. The Bank has Regional and Branch offices which are strategically located throughout the country. In order to facilitate the services rendered to its customers, the Bank has recently given all regional offices the authority to appraise, grant and disburse loans on their own up to certain earmarked limit.

In its long years of existence, DBE has established recognition at national and international levels. Nationally, it is the sole Bank with reputable experience in long-term investment financing. Internationally, it is recognized as an important on-lending channel for development programs financed by bilateral and/or multi-lateral sources.

The recent focus of the Government in relation to DBE is to provide Medium and Long-term loans for investment projects, which are engaged in Commercial Agriculture, Agro-processing and Manufacturing Industries, preferably export focused.

2. Vision

“ A World-Class Project financing centre to spur the National Development Agenda”

3. Mission

The Development Bank of Ethiopia is a specialized Bank established to spur the national development agenda. The Bank’s focal point is the provision of customer focused lending to viable projects in line with government priority areas by mobilizing fund from domestic and foreign sources while ensuring its organizational sustainability. Environmental protection and overall socio-economic development will also be the concern of the Bank.

Mean while, the interest of stake holders is aimed to be served best through continuous capacity building and innovative human resource development. As desirable issues, environmental protection and overall socio-economic development will also be the concern of the Bank.

4. Values

DBE’s Values are beliefs which are upheld in common by its employees and management to put them into practice. They are the cumulative effect of personal and professional values which are shared and owned by all. Hence, the values are expressed by the staff of the Bank as follows:

- We are customer oriented
- Excellence is our distinguishing characteristics
- Integrity is our priceless asset

- Teamwork and innovation are the building blocks of our success
- Environmental protection is one of the DBE's loaning criteria
- The Bank attaches high values to its employees
- Commitment to organizational mission is our banner
- We relay on attitudinal change, ethics, and improved work culture as a driving force for the Bank's transformation.

5. Objectives of Establishment

Among the purposes for which the DBE is established are:

- a) To provide investment credits and short –term loans to viable projects that will contribute to the country's economic development;
- b) To mobilize funds from sources within or outside the country;
- c) To manage funds entrusted to it;
- d) To participate in equity investments;
- e) To provide domestic and foreign banking services to its borrowers;
- f) To accept time deposits;
- g) To guarantee loans and other financial obligations;
- h) To draw, accept, discount, buy and sell bills of exchange drafts and promissory notes payable within or outside of Ethiopia;
- i) To act as a trustee;
- j) To provide technical and managerial services;
- k) To open and operate bank accounts, with Banks and banking correspondents in Ethiopia or abroad
- l) To engage in such other activities as are customarily carried out by development Banks

6. Capital

Currently, the authorized capital of the Bank is Birr 3,000,000,000 (Three billion Birr) of which Birr 1.8 billion (One point eight billion Birr) is paid up capital

7. Services

7.1 Credit Services

- The Bank extends loan services to applicants after undertaking appraisal studies in reliable methods to ascertain the viability of the proposed projects
- The Bank provides counseling and technical services to new applicants and its clients.

7.2 Banking Services

The Bank provides banking services such as deposit facilities in the form of time deposit and current accounts as well as money transfer services. These services are mainly provided to its clients and funding institutions. The Bank also gives international banking service and related activities, providing L/C services to its clients for importation of machinery and raw materials from foreign suppliers and export of produce.

8. Economic Sectors Financed by the Bank

The Bank provides loans for Commercial Agriculture, Agro-Processing, Manufacturing and Extractive Industries, preferably export focused.

The economic sub-sectors for which the loadable financial resource will be availed are:

Commercial Agriculture:

- Commercial scale Horticulture products, vegetables, fruits, mushrooms and the like;
- Commercial scale improved seed multiplication
- Commercial scale food grain farming(wheat, maize, rice etc);
- Commercial scale Coffee plantation &development;
- Commercial cotton farming(irrigated);
- Commercial scale bio-fuel plantation (Jatrophia, castor oil plant, etc.);
- Commercial scale tea plantation & development;
- Commercial scale poultry farming & processing;
- Commercial scale palm oil plantation & processing;
- Commercial scale rubber tree plantation &development;
- Commercial scale silk worm farming;
- Commercial scale crocodile farming &processing;
- Commercial scale stockbreeding with ranch development;
- Commercial scale oil seeds farming & processing including sesame;
- Commercial scale sugar cane and other similar production & processing;
- Commercial scale Apiculture;
- Commercial scale spices, medicinal plants and essential oil production, extraction & processing;
- Commercial scale fiber(Sisal) crops &processing;
- Commercial Bamboo plantation for pulp and paper production, construction;
- Commercial scale fish farming & processing
- Commercial scale Swine farm & processing,
- Commercial scale Ostrich and duck farm & processing.

Agro-Processing:

- Commercial scale food processing plants including pasta production integrated with milling;
- Commercial scale cotton production & ginning;
- Commercial scale dairy products production (pasteurized milk, cheese & butter);
- Commercial scale animal feed production & processing;
- Commercial scale bovine animals and/or shoats production & processing and/or canning;
- Commercial scale poultry projects (broiler, egg and day old chicks production);
- Commercial scale coffee processing (roasting and grinding);
- Commercial scale edible oil extraction & processing (margarine, refined edible oil, sesame (tehina));
- Commercial scale fruit juice production;
- Commercial scale bio-fuel production & processing;
- Commercial scale malt production;
- Commercial scale organic fertilizer production.

Manufacturing and Extractive Industries:

- Manufacture of Beverages, mineral & bottled water;
- Manufacture of textiles & fabrics;
- Industry scale wearing apparel factory (Garment factory);
- Tanning of finished leather & leather products;
- paper & paper products (converting) factory;
- chemical and chemical products factory;
- Rubber & rubber products factory;
- Non-metallic & other construction materials factory (cement, gypsum, marble, bricks, glass & glassware etc.);
- Manufacture and processing of base metal & steel products;
- Precious & base metal mining factory (gemstones, tantalum, gold etc.);

- Fabricated metal products factory;
- Motor vehicles, trailers, semi trailers assembly;
- sugar and sugar by products(ethanol, confectionary);
- Pharmaceuticals factory;
- packing materials production;
- Electrical power generation (from geothermal, wind, solar etc),
- Electrical and electrical apparatus manufacturing;
- Sanitary material factory;
- Micro dams for power generating plants.

9. Loan Types Extended by the Bank

The Bank extends credit to credit worthy borrowers and projects that have received a thorough appraisal and found to be financially and economically viable and socially desirable in terms of environment protection, employment generating capacity and other social benefit that may be included in the framework of development regulation act of the Government. Although DBE extends credit mainly for medium and long term loans, it also avails short term working capital loan to its clients. The term of loan is, however, to be determined based on the specific needs and requirements of projects. The terms of loans are explained below:

9.1 Long Term Loan

- The maximum length of time the Bank advances long term loan is fixed at 20 years including any grace period. Any additional loans or rescheduling must also fall within the 20 years. Permanent working capital can be considered as part of the long

term investment loan of a project that will be recovered with in the 5-15 years loan repayment period.

- Long term loan is mainly used for the purpose of construction of building, acquisition of machinery and equipment, irrigation, plantation of crops, vehicles, communication equipment and for any other infrastructure related with the project to be financed

9.2 Medium Term Loan

- This type of loan is a loan repayable within three to five years including any grace period;
- Such loan is mainly used for the purpose of building construction, machinery and equipment, furniture and vehicles.

9.3 Working Capital Loan

In addition to the permanent working capital that is part of project cost, working capital loan serves as bridge finance and is availed on the bases of the cash flow of the project itself. The purpose of working capital finance is for extension of inventory cycle, increased capacity utilization and to cover the occasional short term cash flow problems of existing customers.

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10. Lending Conditions and Equity Contribution

10.1 All prospective borrowers for new projects from the Bank are required to provide at least 30% of the total project cost.

10.2 Borrowers who wish to obtain financing for new priority area projects

are required to provide the minimum equity contribution of 30% of the total project cost in cash. The cash contribution shall be placed upfront or gradually over a period not to exceed 6 months from the loan contract signing date. The Bank will finance the remaining balance up to a maximum of 70% of the total project cost after utilization of the 30% equity contribution by the borrower. However, strategic projects that are implemented phase by phase over a long period of time and face difficulty to put upfront contribution at once may be presented to the BOM for consideration.

- 10.3 Borrowers who wish to obtain financing for the expansion of an existing priority area project and whose assets of the existing project are not collateralized can access 100% financing of the expansion cost provided that the value of the existing asset covers 40% of the total project cost. This means that the debt to equity ratio stands at 60:40. For any cash contribution made by the promoter to cover the shortfall, the promoter can access additional loan from the Bank according to the debt to equity ratio of 70:30
- 10.4 Borrowers who wish to obtain financing for a priority area project and own uncollateralized assets outside the project, can access 100% financing provided that the value of the assets amounts to 40% of the total project cost and are run as a business to generate regular income flow (e.g. generates rental income).
- 10.5 The Bank shall not entertain loan requests for refinancing projects already implemented. Refinancing or retroactive financing shall not be accepted for implemented projects or for privatization.

11. Loan Buy Out

11.1 The Bank may buy-out loans extended by other local Banks.

However, the loans to be purchased under the buy-out loan facility should be :

- Viable/going concern &
- Priority sector project loans

11.2 Borrowers of other banks are able to transfer their loans to the Development Bank of Ethiopia provided that they have good repayment track record, but face stringent loan terms and conditions that could strain the project and affect the business's sustainability.

11.3 The Bank shall not purchase short term loans namely merchandise Loans, letter of credits, Overdraft loans, advances and pre-shipment export credit

11.4 The Bank shall not buy-out any loans extended by foreign Banks

11.5 The Bank shall not take collateral on secondary degree mortgage basis

12. Documents Required from applicant to establish a new project

We advise all applicants to review the following information in order to ensure that all required documentation is complete. Please note that providing us with all required documentation will enable us to process applications timely and efficiently.

12.1 License

- 12.1.1 Temporary/permanent Work Permit from relevant organ of the Government for foreign investors.
- 12.1.2 Principal Registration Certificate
- 12.1.3 Investment Certificate from the concerned Federal and/or Regional Government Authority.
- 12.1.4 Tax payer Identification Number (TIN)
- 12.1.5 Value added Tax registration certificate (VAT)
- 12.1.6 Confirmation letter on fulfillment of tax obligation (For existing businesses)
- 12.1.7 Confirmation letter from concerned government body regarding impact assessment on the surrounding environment (As deemed necessary).

12.2 Land

- 12.2.1 For leased land, the contractual lease agreement entered into with the appropriate Government authority
- 12.2.2 For projects located in urban areas, the Title Deed certificate for the land approved by the appropriate Government authority
- 12.2.3 For projects located in rural areas, contractual land use agreement from farmers approved by the appropriate Government authority
- 12.2.4 Site plan of the project (For agricultural projects only).

12.3 Margin of Safety

Where fixed assets essential to production are leased, the Bank requires a 5(five) year margin of safety after the last repayment date. Confirmation letters from the appropriate government authority, specifying that the lease period will last until the Bank's loan is fully settled are required.

12.4 Engineering

12.4.1 Construction Plan (Blue Print) designed by a licensed consulting firm and approved by a higher consulting firm (i.e. grade 3 consulting firms must be approved by Grade 2 consulting firms, Grade 2 consulting firms must be approved by Grade 1 Consulting firms, Grade 1 consulting firms do not need higher approval). The Construction Plan must be sealed & signed by the concerned government body.

12.4.2 Construction work should be executed by a licensed contractor, contract agreement and payment arrangement has to be submitted.

12.4.3 The Construction plan must include:

12.4.3.1 Architectural working drawings(plan)

12.4.3.2 Structural working drawings(plan)

12.4.3.3 Electrical drawings(plan)

12.4.3.4 Sanitary(Mechanical) drawings(plan)

12.4.3.5 Plan of farm road for agricultural project

12.4.3.6 Plan for canals diversion wires if the project is irrigable

12.4.3.7 Land Development

12.4.3.8 Soil test & water analysis of the project area by certified professional personnel and/or licensed institution

12.4.4 Construction permit

12.4.5 Bill of Quantity and Take of sheet(both in hard and soft copy) OR

- Tender Documents
- Invitation to bid
 - Bid analysis
 - Award and
 - All source documents must be submitted

N.B.

- No.12. 4.1-12.4.3.4, 12.4.4, and 12.4.5 are required for all projects. No. 12.4.3.5-12.4.3.8 are additional requirements for agricultural projects only.

12.5 Presentation of Performa Invoices or Approved Bid Analysis Documents

12.5.1 Small to medium loan applicants should present at least three Performa invoices from legitimate suppliers stating the major specifications, the quantity, quality, and price of the investment items.

Nevertheless, single Performa invoices are accepted if procurement is to be made from sole suppliers. For turn key supplies bid results should be submitted.

In all cases the Performa invoices have to be submitted at the time of loan application according to the following details

12.5.1.1 Machinery & Equipment (Brand, model, production

year, capacity, country of origin, availability of spare parts and accessories).

12.5.1.2 Raw Material & Packing Material

12.5.1.3 Vehicles

12.5.1.4 Office Equipment, Furniture & Fixtures

12.5.1.5 Green House

12.5.1.6 Plant Material

12.5.1.7 Input (Chemical & Fertilizers)

12.5.1.8 Irrigation Systems

12.5.1.9 Farm Tools and Others as deemed necessary

12.5.2 Large loan applicants pleading refurbished equipments as equity contribution are not obliged to submit Performa invoices and the Bank shall make its own analysis with regard to refurbished equipments.

12.6 Procurement procedures

Procurement of goods and services required by a project for which the Bank's loan facility is being extended shall normally be procured in compliance with the NBE Directive.

12.7 Utilities

Written confirmation for the availability of power and water from the responsible authorities

12.8 Loans to Legal Entities/ Business Organizations

In adaptation to fulfillment of enumerated requirements for new and expansion projects, business organizations are required to submit the following additional documents.

12.8.1 Copy of Memorandum of Association and Article of Association

12.8.2 Legal personality certificate (for Co-operative Associations)

12.8.3 Where it is not definitely specified in Articles of Association, Authorization for the General Manager to borrow from a Bank by pledging the association's properties.

12.8.4 If there is an increase in capital, a corporate resolution to this effect.

12.9 Power of Attorney

A Power of Attorney is required for all loan applications submitted through an agent or any other third party.

12.10 Marriage Certificate/Sole Proprietorship

12.10.1 Ethiopian Nationals

For married applicants: Marriage certificate

For single applicants: Written evidence of being single from the concerned government body

For divorced applicants: Divorce certificate and evidence of being single.

12.10.2 Expatriates

For married applicants: Marriage certificate, authenticated by the relevant country's Ministry of Foreign Affairs.

For single applicants: Written evidence of being single, authenticated by the relevant country's Ministry of Foreign Affairs.

12.11 Credit Information

Credit information, credit ratings and other background checks will be conducted of all applicants and/or companies. Applicants will be required to provide personal and business references and authorization for the Bank to conduct credit rating and other checks

12.12 Feasibility Study

12.12.1 Feasibility studies prepared by licensed and known consultancy firm.

12.12.2 Copy of the consultant's current license

12.12.3 Feasibility Study with the following details:-

12.12.3.1 Executive Summary

12.12.3.2 Background Information

12.12.3.3 Market Study & Market Arrangement

12.12.3.4 Technical Study

12.12.3.5 Organization ,Management and Manpower

12.12.3.6 Implementation Program

12.12.3.7 Socio Economic Aspect

12.12.3.8 Financial Study

12.12.3.9 Conclusion and Recommendation

12.12.3.10 Annexes(other related document)

12.13 Documents Required from Applicant Desiring to Expand Existing Project

- 12.13.1 Requirements listed from 12.1 –12.12
- 12.13.2 Business License
- 12.13.3 A list of valuated existing fixed assets and consumables, including date of purchase and prices
- 12.13.4 Expansion license with capital increment if the registered capital is not sufficient
- 12.13.5 Audited financial statement of the project for a minimum of the preceding three years
- 12.13.6 Bill of Quantity and Plan for the Additional Land Development Work/Building Construction.
- 12.13.7 Past performance of the project
 - 12.13.7.1 Production
 - 12.13.7.2 Total exported item in quantity and value
 - 12.13.7.3 Local sales in quantity and value
 - 12.13.7.4 Income from local sales
 - 12.13.7.5 Total area
 - 12.13.7.6 Area for variety
 - 12.13.7.7 Production per variety

N.B.

No. 12.13.7.1 – 12.13.7.4 are required for all projects. No. 12.13.7.5-12.13.7.7 are only for agriculture projects.

12.14. Single Borrower Limit

12.14.1 The total loan to an individual or business organization resulting from extension of one or more loans by DBE shall be limited to 25% of the total paid up capital of the Bank .

12.14.2 The total loan to related parties (i.e. more than one enterprises legally organized under one umbrella company) resulting from extension of one or more loans by DBE shall at no time exceed 35% of the total paid up capital of the Bank

12.15. Repayment period

The repayment period of loans shall be determined based on the cash flow of each project and the economic life of major investment components.

12.16. Collateral Requirement

The Bank will rely primarily upon the financial viability of the project itself. However, in order to safeguard the loan, the Bank requires first-degree collateral security for all loans. The Bank shall revalue collateral assets every year as per the Bank's guideline.

Projects operating on rented premises are required to present additional collateral outside the project amounting to 100% of the loan. However, if the premise is rented from government organs and written undertaking is obtained from the government organ to enable the Bank transfer the renting right to third party in case of default, additional collateral outside the project will not be required.

12.17. Interest Rate

The interest rate to be charged on loans will be set by management of the Bank and considered by the BOM in consultation with the government.

Current interest rate for the priority areas of the Bank is 7.5 %(seven point five percent)

12.18. Commitment Charge

The borrower shall pay a commitment charge of 0.5 %(point five percent) per annum on committed, but not on disbursed funds.

12.19. Maintenance and Provision of Financial & Other Records

12.19.1. The Bank requires the maintenance of accurate and adequate financial records. Borrowers must provide audited financial records on initial application and on annual bases thereafter.

12.19.2 The Bank requires the provision of an annual business plan which should include :

- The existing strengths, weaknesses, opportunities and threats of the business.
- Planned export activities and marketing
- Forecasts on sales and expenditures, with justification for assumptions made
- Information on payment of debt
- Any other information relevant to the performance of the business in the coming year.

12.19.3 In order to disburse loans, the Bank requires the maintenance and provision of financial records which indicate the utilization of the disbursed fund.

12.19.4. The Bank retains the right to periodically inspect all financial records

12.20. Engineering Estimation

In order to disburse loans, the value of the building (s) have to be assessed by the Bank to ensure that pre-conditions for disbursement are fulfilled.

12.21. Insurance

All the fixed assets of a project as well as assets pledged as collateral must be insured, with the Bank as a co-beneficiary, until the loan is fully settled.

12.22. Application Letter

Clients must request all loan disbursements in writing and indicate the specific purpose for the disbursement

12.23. Current Account

The Client must open a current account with the Bank prior to loan disbursement

12.24. Letter of Credit (L/C)

Borrowers shall open Letter of Credit (L/C) with the Bank for procuring all items to be imported as well as exporting products.

12.25. Procurement Procedures

Without prejudice to the International Agreement entered into by the state, all Goods and Services required by a project for which the Bank's credit facility is being extended shall normally be procured on the basis of competitive bidding.

12.26. Other Conditions

Borrowers shall employ experienced and qualified work force as specified in the loan agreement of project appraisal study. If the owner leads the project as both owner and manager, he/she must fulfill the set requirements in the appraisal study for the post of the General/Farm Manager (including relevant experience and entrepreneurial skills).

13. Notice to applicants

- A company, business promoter, co-operative, or any interested individual seeking to establish a new venture or expand on existing one can approach DBE's Head Office or one of its Branch Offices.
- The Bank will provide appropriate response without delay to applicants who seek banking services and who fulfill and submit all the requirements. The Bank is also pleased to inform all stakeholders that it has re-engineered its credit service delivery system to satisfy the growing demand of its customers and meet their expectation.
- Further Information concerning DBE's lending policies and procedures can be obtained from Head Office, and/or Branch level.
- Complaints can be forwarded to the Bank following its hierarchy or/and to the Ethics and Complaint Management Process.

Development Bank of Ethiopia

Address:

YOSEF BROZ TITO Street

P.O.Box 1900

Addis Ababa, Ethiopia

Tel. +251-11-551 11 88/89

Fax. +251-11-55116 06

Email: dbe@ethionet.et

Website: www.dbe.com.et