

# **A Guide to Development Bank of Ethiopia Loan Requirements**

The Bank undertakes due diligence or KYC assessment to identify the integrity of the borrower, appraises the feasibility study submitted by the applicant and finally makes decision on the approval of a loan. The prospective borrower is required to submit all the required documents as per the check list provided below.

We encourage 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 more efficiently

## **I. Documents Required from Applicant to Establish a New Project**

Brief history of the Company, owner's experience and background, management experience and background, intended project and amount of financing required.

### **1. License**

- 1.1. Work Permit (Temporary/Permanent) from relevant organ of the Government (depending on the nature of the project).
- 1.2. Principal Registration Certificate
- 1.3. Investment Certificate from the concerned Federal and/or Regional Government Authority.
- 1.4. Certificate of the Commercial Register
- 1.5. Tax payer Identification Number (TIN)
- 1.6. Value added Tax registration certificate (VAT)

### **2. Land**

- 2.1. For leased land, the contractual lease agreement entered into with the appropriate Government authority
- 2.2. For projects located in urban areas, the Title Deed certificate for the land approved by the appropriate Government authority

- 2.3. For projects located in rural areas, contractual land use agreement from farmers approved by the appropriate Government authority
- 2.4. Site plan of the project.

**N.B.**

- No. 2.1 - 2.3 are required for all types of projects. No. 2.4 is required for agricultural projects only.

### **3. Engineering**

3.1 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 a Grade 1 consulting firms. Grade 1 consulting firms do not need higher approval). The Construction Plan must be sealed & signed and must include:

- 3.1.1. Architectural plan
- 3.1.2. Structural plan
- 3.1.3. Electrical plan
- 3.1.4. Sanitary plan
- 3.1.5. Plan of farm road for agricultural project
- 3.1.6. Plan for canals diversion wires if the project is irrigable.
- 3.1.7. Land Development
- 3.1.8. Soil test & water analysis of the project area by certified professional personnel and/or licensed institution.

3.2. Construction Permit

3.3. Bill of Quantity (both in hard and soft copy).

**N.B**

- No. 3.1 - 3.1.4, 3.2 & 3.3 are required for all projects. No. 3.1.5 - 3.1.8 are required for agricultural projects only.
- Please refer to attached Annex No. One for full details of engineering requirements.

## **4. Proforma Invoices**

4.1. Proforma invoices, with specifications and catalog, from three different suppliers for: -

- 4.1.1. Machinery & Equipment
- 4.1.2. Raw Material & Packing Material
- 4.1.3. Vehicles
- 4.1.4. Office Equipment, Furniture & Fixtures
- 4.1.5. Green House
- 4.1.6. Plant Material
- 4.1.7. Input (Chemical & Fertilizers)
- 4.1.8. Irrigation Systems
- 4.1.9. Farm Tools

### **N.B.**

- No. 4.1.1 - 4.1.4 are required for all projects. No. 4.1.5. - 4.1.9 are required for agricultural projects only.

## **5. Utilities**

Written confirmation of the availability of power, water, telephone, Internet and fax access at the project site from the responsible authorities.

## **6. Marriage Certificate/Sole Proprietorship**

### **6.1. Ethiopian Nationals**

For married applicants: Marriage certificate for single applicants: Written evidence of being single from the Sub-City (Kifle-Ketema) accompanied by a Photograph

### **6.2. Expatriates**

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

## **7. Credit Information**

Credit information, credit ratings and other background checks will be conducted of all applicants and/or companies and major share holders of companies. Applicants will be required to provide personal and business

references and authorization for the Bank to conduct credit rating and other checks.

## **8. Feasibility Study**

8.1. Feasibility studies prepared by a licensed and known consultancy firm.

8.2. Copy of the consultant's current license.

8.3. Feasibility Study with the following details:-

- ◆ Project Summary
- ◆ Background history of the Project and Promoter
- ◆ Up-dated Market Study & Market Arrangements
- ◆ Technical Study
- ◆ Organization & Management Study
- ◆ Financial Analysis
- ◆ Social & Economic Aspect of the Project
- ◆ Conclusion & Recommendation
- ◆ Implementation Program
- ◆ Other related relevant documents.

8.4. Details of feasibility study costs.

### **N.B**

- Please refer to the attached Annex No. Two for full details of feasibility study requirements.

## **9. Impact Assessment on Environment**

Written confirmation from the appropriate Ethiopian Authority regarding the project's impact assessment on the surrounding environment (Eco-system)

## **II. Documents Required from Applicant Desiring to Expand Existing Project**

2.1. Requirements listed from 1 - 9

2.2. A list of existing fixed assets and consumables, including date of purchase and prices

2.3. Expansion license with capital increment if the registered capital is not sufficient

2.4. Audited financial statement of the project for a minimum of the preceding three years

2.5. Tax Payer Identity Number (TIN)

2.6. Value Added Tax registration certificate (VAT)

2.7. Bill of Quantity and Plan for the Additional Land Development Work/Building Construction

2.8. Past performance of the Project

- 2.8.1. Production
  - 2.8.2. Total exported item in quantity & value
  - 2.8.3. Local sales (quantity & value)
  - 2.8.4. Income from local sales
  - 2.8.5. Total area
  - 2.8.6. Area for variety
  - 2.8.7. Production per variety

**N.B**

- No. 2.8.1. - 2.8.4 is required for all projects. No. 2.8.5-2.8.7 is required for agricultural projects only.

### **III. Loans to Legal Entities/ Business Organizations**

All projects must fulfill the requirements listed No.1 - 9 above and 3.1-

3.4 Hereunder. Expansion projects must also fulfill conditions & documents listed from 2.1 -2.8.

3.1 Copy of Memorandum of Association and Article of Association.

3.2 Legal Personality Certificate.

3.3 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.

### **IV. Re-financing**

The Bank considers refinancing requests for projects already financed by other financial institutions. Reimbursement or retroactive financing of projects already financed by owners shall not be considered.

### **V. Equity (Capital) Contribution**

All prospective borrowers for new Agricultural and Manufacturing industry projects from the Bank are requested to provide at least 30% of the total projects cost.

Borrowers who wish to obtain financing for new priority area projects are required to provide 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.

## **VI. Single Borrower Limit**

The total loans to an individual, business organization or related borrowers shall at no time exceed 25% of the total capital of the Bank.

## **VII. Collateral Requirement**

The Bank will rely primarily upon the financial viability of the project itself. However, in order to minimize default risk or to safeguard the loan, the Bank requires first-degree collateral security for all loans. The Bank shall reveal collateral assets every year.

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.

## **VIII. 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.

## **IX. Interest Rate**

### **9.1 Priority Agricultural and Manufacturing Projects**

For priority agricultural and manufacturing projects, an interest rate of 7.5% (seven point five percent) per annum will be charged by the Bank.

**N.B**

- The Bank can change the above-mentioned interest rates or other authority authorized to issue a new interest rate.

**X. Commitment Charge**

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

**XI. Maintenance and Provision of Financial & Other Records**

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

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

- Existing SWOT analysis (i.e. the existing strengths, weaknesses, opportunities and threats of the business)
- planned export activities and marketing
- Forecasts on sales and expenditures, with justifications for assumptions made
- Information on payment of debt
- Any other information relevant to the performance of the business in the coming year

In order to disburse loans, the Bank requires the maintenance and provision of financial records, which indicate how disbursed funds have been used.

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

**XII. Power of Attorney**

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

**XIII. Engineering Estimation**

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

#### **XIV. 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.

#### **XV. Credit Utilization**

Credit shall normally be used for fixed assets including buildings, machinery, vehicles, land development, livestock, planting, material for free crops, etc. It can also be used for pre-production costs and working capital requirements.

#### **XVI. Application Letters**

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

#### **XVII. Supporting Documents for Acquisition Value of Assets**

For expansion projects, which involve existing investments, supporting documents for the acquisition of assets, such as machinery, equipment, etc (other than buildings) have to be provided.

#### **XVIII. Current Account**

The client must open a current account with the Bank prior to loan disbursement. Please refer to the attached Annex three for full details of banking conditions, services and charges.

#### **XIX. 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. Please refer to the attached Annex 3 for full details of banking conditions, services and charges.

## **XX. Procurement Procedures**

Without prejudice to the International Agreement entered into by the State, procurement of goods and Services required by a project for which the Bank's loan facility is being extended shall normally be procured on compliance with the NBE (National Bank of Ethiopia) Directive.

## **XXIV. Other Conditions**

24.1 Borrowers shall employ experienced and qualified work force as specified in the loan agreement of project feasibility study.

24.2 If the owner leads the project as both owner and manager, they must fulfill the set requirements in the feasibility study for the post of the General/Farm Manager (including relevant experience and entrepreneurial skills).

## **XXII. Repayment Schedule**

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

## **XXIII. Penalty Charges**

Penalty interest rates will be charged pursuant to National Bank of Ethiopia directives.