

# Development Bank of Ethiopia



## A SHORT GUIDE TO ACCESS DBE'S LOANS



# 1. Introduction

Development Bank of Ethiopia (DBE) is one of the state-owned financial institutions engaged in providing short, medium and long term credits over the last 107 years. The Bank has been playing central role in promoting the over-all economic development of the Country since its establishment.

In its over a century old service, DBE has established recognition at the 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 multilateral sources.

The recent focus of the government in relation to the revised credit policy of DBE is to provide medium and long term loans for investment projects in the Government priority areas such as Commercial Agriculture, Agro-processing, Manufacturing Industries, Mining and Extractive Industries preferably, export focused as well as lease financing for Small and Medium Enterprises.

## 2. Mission

“The Development Bank of Ethiopia is a specialized financial institution established to promote the national development agenda through development finance and close technical support to viable projects from the priority areas of the government by mobilizing fund from domestic and foreign sources while ensuring its sustainability.

The Bank earnestly believes that these highly valued objectives can best be served through continuous capacity building, customer focus and concern to the wider environment”.

## 3. Vision

“100% Success for All Financed Projects by 2020”

## 4. Values

- Commitment to mission
- Customer focus
- Integrity
- Team work
- High value to employees
- Learning organization
- Concern to the environment

## 5. Capital

Currently, the authorized capital of the Bank is Birr 7.5 billion (Seven billion five hundred million Birr).



## 6. Services

### 6.1 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 technical support to new applicants and its clients.

### 6.2 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 provided to its clients and funding institutions. The Bank also gives international banking service and related activities, providing L/C services to its clients to import capital goods and raw materials and to export produces.

## 7. Economic Sectors Financed by the Bank

DBE's major area of focus is provision of medium and long-term loans for investment projects in the Government priority areas. In line with the Agriculture Development Led Industrialization Strategy (ADLI) of the Country, the Bank provides finance to encourage investment in Commercial Agriculture, Agro-processing Industries, Manufacturing Industries, Mining and Extractive Industries and lease financing for Small and Medium Enterprises (SMEs).

The Bank finances large scale irrigable and rain fed agricultural farms with minimum equity capital Birr 7.5 million and above. Financing for rain fed agricultural farms is to be only for the production of sesame and cotton located in agro-ecological zones with reliable rain fall.

The Bank also provides loan for project expansion in the priority area: priority area project requesting for expansion will be those projects which have been properly implemented and proved to be successful financially as well as in the area of project management.

### List of Economic Sub sectors

#### 1. **Commercial Agriculture: (All farming should be supported by irrigation system)**

- 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 rain fed with assurance of rainfall availability supported by meteorology data;
- 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.

## **II. 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 one day old chicks production);
- Commercial scale coffee processing (roasting and grinding);



- Commercial scale edible oil extraction & processing (margarine, refined edible oil, sesame (tehinā);
- Commercial scale fruit juice production;
- Commercial scale bio-fuel production & processing;
- Commercial scale malt production;
- Commercial sale organic fertilizer production;

### **III. Manufacturing and Extractive Industries:**

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

### **8. 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 generation capacity and other social benefit that may be included in the framework of development

regulation act of the Government.

Although DBE extends long and medium term loans, it also extends loans to special line of credit. 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.

## **8.1. Long-Term Loans**

The maximum length of time the Bank advances long term loans is fixed at 20 years including any grace period. Any additional loans or rescheduling must also fall within the 20 years.

## **8.2 Medium Term Loans**

This type of loan is loan repayable within three to five years including any grace period.

## **8.3. Working Capital Loan**

- The Bank provides permanent working capital as part of the long and medium term loans that will be recovered within the loan repayment period.
- The short term working capital requirement of operational projects financed by DBE shall be catered by commercial banks through a tri-partite agreement entered among DBE, commercial banks and borrowers. However, the CBE would be used as a last resort in case of the borrowers could not get short term working capital from any commercial bank.

## **8.4 Special Line of Credit**

### **8.4.1 Export**


The Bank extends special line of credit for borrowers and/or companies engaged in the textile, garment and leather and leather product industries. The special line of financing involves DBE making payments on behalf of the borrowers and/or companies for the purchase of raw materials and loan collection will be made later on by DBE when the products are exported.

Conditions for obtaining the special line of financing are worthily mentioned as follows:

- The borrowers and/or companies should secure sales contract from buyers in the international market.
- DBE handles the process for the export.
- The Bank makes payment for the purchase of the raw materials needed for the export.
- The Bank deducts the equivalent of its payment when the products are exported and payments are made from the buyers in the international market.

### **8.4.2 Input Financing**

Similarly, the Bank extends special line of credit for procurement



of raw materials to borrowers and/or companies engaged in pharmaceutical industries and supply/sell their products to Government corporate companies/agencies through a tripartite agreement entered among the DBE, borrowers and/or companies and the Government corporate companies/agencies.

## **9. Lending Conditions and Equity Contribution**

- 9.1.** All prospective domestic investors or borrowers for new projects are required to provide at least 25% of the total project cost. The Bank will 10remaining balance up to a maximum of 75% of the total project cost after blocking and/or utilization of the 25% equity contribution by the borrower.
- 9.2.** All prospective foreign investors or borrowers for new projects (including those projects operating in industrial parks) are required to raise as equity capital at least 50% of the total project cost. The Bank will finance the remaining balance up to a maximum of 50% of the total project cost after depositing in block account at the Bank its equity contribution by the borrower.
- 9.3.** The cash contribution will be placed upfront or gradually over a period not to exceed 6 months from the loan contract signing date.
- 9.4.** For projects with total project cost of Birr 1 billion and above, the cash contribution will be placed upfront or gradually. In case of gradual cash contribution, 1/3 of the total equity contribution shall be deposited within the first 6 months, 2/3 of the total equity contribution within 9 months and 100 percent cash contribution not to exceed 12 months from the date of loan contract signing.
- 9.5. DBE receives in-kind equity contribution for new and existing investment projects under the following conditions:( for domestic investors)**
  - 9.5.1.** In-kind contribution can consist of equipment, machinery, leased land, vehicles and buildings that are used/ to be used for the sole purpose of the project to be financed by DBE.
  - 9.5.2.** Vehicles should have book values of not less than 40 percent of original manufacturing cost at the date of application to DBE.
  - 9.5.3.** For leased land, its value should be determined by the lease amount paid.
  - 9.5.4.** For existing investment projects that shift from sectors such as the service sector to agriculture, agro-processing or manufacturing sectors, in-kind



contributions brought from the existing investment could be considered subject to fitness for the purpose.

- 9.5.5. The in-kind contributions should be held as first degree collateral by DBE to obtain finance.
- 9.5.6. The valuation of the in-kind contributions should be conducted by the Bank.
- 9.5.7. 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 assets covers 40% of the total project cost. 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 60:40.
- 9.5.8. 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 (e.g. generates rental income).

Loan repayment will be effected both from income generated from the project and the business outside the project. The amount to be transferred for loan repayment from the business income shall be decided by the Bank and agreed upon by the borrower.

- 9.5.9. DBE shall treat domestic investors' projects engaged in export business on textile, garment and leather and leather products that plan to expand through a backward or forward linkage under 70:30 debt to equity ratio.

## **10. Checklist of Requirements for All Loans**

The Bank advises all applicants to review the following information in order to ensure that all required documentation are complete. Please note that providing Bank with all required documentation will enable the Bank to process applications timely and efficiently.

### **10.1. Loan Application Specifying the Loan Amount Requested**

#### **10.1.1. License**

- Temporary (permanent ) work permit for foreign investors.
- Investment certificate
- Principal Registration Certificate

- Tax Payer Identification Number (TIN)

### **10.1.2. Land**

- Contractual Lease Agreement that extends to six /6/ years after the full payoff period of the loan (If applicable)
- Title deed certificate or proof of ownership

## **10.2. Engineering (For Civil Work)**

### **10.2.1. For Industrial Project**

- Approved blue print of architectural plan
- Approved blue print of structural plan
- Approved blue print of sanitary plan
- Approved blue print of electrical plan
- Bill of quantity ( in soft and hard copies)
- Approved site plan
- Construction permit
- Take off sheet

### **10.2.2. For Agricultural Project**

- Approved construction plan (blue print)
- Bill of quantity ( in soft and hard copies)
- Approved site plan
- Construction permit (for urban area)

### **10.2.3. For Agro-processing Project**

- All requirements listed under Industrial Projects for urban area
- All requirements listed under Agricultural Projects for rural area

## **10.3 Presentation of Pro-forma Invoices or Approved Bid Analysis Documents**

- 10.3.1.** At the time of application, small to medium loan applicants should present single pro-forma invoice from legitimate suppliers for the purposes of budgeting (or planning project costs). The invoices should, however, clearly indicate major specifications, the quantity, quality and price of the investment items for which bank finance is sought.
- 10.3.2.** All capital goods purchase shall be from local producers. If the machinery/equipment could not be found locally. It can be imported from abroad.



- 10.3.3.** For turnkey projects, applicant should submit bid evaluation documents. In such cases, however, detailed project design shall be presented to the Bank before disbursement is started.
- 10.3.4.** Loan applicants which request for refurbished equipments to be considered as part of their equity contribution are obliged to submit commercial invoices as the Bank conducts its own analysis as regards such refurbished equipments.
- 10.3.5.** Requirements to be met regarding the release of disbursements for the procurement of machinery and equipment:
- 10.3.5.1.** Customers should submit three pro-forma invoices from legitimate suppliers when the price of the planned item to be procured is not available in the Bank's database.
- 10.3.5.2.** A loan disbursement for all procurements of goods and services in excess of USD one million should comply with the NBE directives for international bid.

## 10.4. Utilities

Written confirmation for the availability of electric power and water with indicative cost from the responsible authorities as deemed necessary.

## 10.5. Power of Attorney

A power of attorney for loan application submitted through an agent or any other third party.

## 10.6 Track Records

The applicant should submit business track records as per the following details if the applicant has other businesses.

Sr. No.	Name of the Applicant	Business Address	Status of the Business

**Remark:** Business status can be profitable, loss or new.

Audited or provisional financial statements for at least the preceding three years should be submitted for the business mentioned above.

- 10.7.** Credit history of the applicant/spouse (both from domestic and foreign banks if applicable) Bank's reference on the applicant credit history stating the following:



- Name of the lending bank
- Date borrowed
- Amount approved, amount disbursed
- Loan repayment performance
- Current status of the debt
- Collateral Asset

10.8. Confirmation letter on fulfillment of tax obligation (for existing business)

10.9. Confirmation letter from the concerned body stating environment

friendliness of the project and copy of environmental impact assessment study.

10.10. Social Interaction of the Applicant

A recognition letter for his/her company social relation, if any.

### **10.11. Management (Company General Manager and Project Manager)**

- Address
- Educational background
- Overall work experience
- Relevant work experience
- Attach CV with reference documents

### **10.12. Source of Equity**

The applicant should clearly indicate the source of fund to be used as equity contribution.

### **10.13. Project Feasibility Study**

The project feasibility study should be prepared by the licensed consulting firms and the main content of the study should at least include.

### **10.14. Executive Summary**

#### **1.14.1. Background Information**

- Brief History of the project and/or the promoter.
- Business objective of the project.
- Credit history and status of the promoter.
- Purpose and amount of loan requested.

### **10.14.2. Market Study**

- General analysis of the market for entire industry
- Competition
- Demand analysis
- Supply analysis
- Demand-supply gap analysis
- Price analysis
- Marketing strategy

### **10.14.3. Technical Study**

- Location
- Civil work design and construction
- Theoretical capacity of machineries and capacity utilization
- List and cost breakdown of machinery and equipment
- Availability of utilities and infrastructure
- Physical and natural conditions of the project (for agricultural projects)
- Materials for use /input (availability and cost)
- Production process
- Environment impact assessment
- Project implementation schedule

### **10.14.4. Organization, Management, Man-power Requirement and Availability**

- Projected Financial Study
- Investment outlay
- Production, revenue and operating costs estimate
- Project financial results (profit and loss, cash flow and balance sheet)
- Viability and other measures of project worth
- Socio economic aspects
- Conclusion and recommendation

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

#### **10.14.5.1 Ethiopian Nationals**

- For married applicants: Marriage certificate
- For single applicants: Written evidence of being single

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

### 10.14.5.2 Expatriates

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

### 10.14.6. Physical and Natural Conditions of the Projects Area (For Agricultural Projects Only)

- Climate: rainfall and temperature data
- Water supply: availability and test for salinity
- Soil test: suitability for the intended crops to be grown

### 10.14.7. Contract Agreement

- Contract agreement and payment agreements for construction from a licensed contractor as deemed necessary (before loan contract signing)

### 10.14.8. Value Added Tax Registration Certificate (VAT)

- It is before loan contract agreement

### 10.14.9. Additional Requirements for Legal and Entities/

#### Business Organization

- Memorandum of Understanding
- Article of Association
- Authorization letter from parent company for intended borrowing if the applicant is a subsidiary company
- Profile of share holders that have more than 5% of the prescribed capital
- Complete CV of the Board of Directors if any
- Credit status of share holders with other banks which have more than 5% of the prescribed capital

Sr. No.	Name of Shareholder	Name of Lending Bank	Type of Loan	Status of the Loan	Remark
1					
2					
3					

**Remarks:** Type of loan long, medium, short term, overdraft, etc.

- Status of loan-pass, special mention, substandard, doubtful or loss

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

- 11.1. All requirements listed in under No. 10 except Project Feasibility Study indicated in No. 10.13.
- 11.2. Renewed business license
- 11.3. Expansion license as appropriate
- 11.4. Capital increment if the registered capital is not sufficient
- 11.5. Audited Financial statement of the project for a minimum of the preceding three years if applicable
- 11.6. Detailed business plan which justifies the need for project Expansion
- 11.7. Confirmation letter of fulfillment of tax obligation
- 11.8. Signed statement stating that all statement represent true financial status of the project
- 11.9. CV of existing management staff
- 11.10. Payroll list of the existing employees with their respective salary
- 11.11. Original commercial invoice for all purchased existing investment items excluding civil works.
- 11.12. A list of existing fixed assets and consumables stock including date of purchase and purchase price
- 11.13. Approved construction plan for the existing civil works and approved construction plan and Bill of Quantity (BOQ) for expansion of civil works.

## **12. Review of past performance of the business (for the last three years)**

Sr. No.	Type of produce	Year 1		Year 2		Year 3	
		Quan- tity	Val- ue	Quan- tity	Value	Quan- tity	Val- ue

	1.1.	Local sales					
	1.2.	Export sales					

## Others

### 13. Single Borrower Limit

- 13.1. The total liabilities to an individual or business organization resulting from extension of one or more loans by DBE shall be limited to 25% of the total capital of the Bank.
- 13.2. The total liabilities 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 capital of the Bank.

### 14. Repayment Period

The repayment period of the loans shall be determined based on the cash flow of each project and the economic life of the major investment components. However, it cannot exceed 20 years including maximum grace period of 5 years.

### 15. Collateral

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 shall require first-degree collateral (security) on the project financed for all loans.

- 15.1. The Bank shall revalue collateral assets periodically.
- 15.2. In addition to collateral assets revaluation made regularly, the Bank shall request collateral assets inventory report together with audit report from the customer every year.
- 15.3. The Bank shall confirm the availability of collateral assets during regular project follow-up.
- 15.4 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 a 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 may not be required.
- 15.5. For Private Limited Companies requiring loans from the Bank, the Bank shall request personal guarantee from major shareholders for projects whose physical collaterals (fixed assets) do not cover the loan amounts.

### 16. Interest Rates, Fees and Charges



The Bank requires that all borrowers are obliged and be willing to pay interest and other necessary charges on loans and other credit services.

The following explanation depicts about the priority and non-priority areas of the Bank due to the interest rate and other charges.

### **16.1. Export Incentives**

The Bank shall provide export incentive in the form of interest rate to the following projects or business categories:

1. Interest rate on credit for 1<sup>st</sup> grade exporters, whose export accounts at least 80 percent of total sales should be 3 percentage point above the minimum DBE-Bond rate of 6%.
2. Interest rate on credit for 2<sup>nd</sup> grade exporters, whose export accounts between 60 percent and 80 percent of total sales should be 3.5 percentage point above the minimum DBE-Bond rate.

### **16.2. Import Substitution Incentives**

The Bank shall provide export incentive in the form of interest rate to the following projects or business categories that are believed to substitute import from abroad:


- Projects to be established for import substitution and farming produces used for direct and indirect export such as cotton, leather processing, rice, sesame, coffee and soya beans commercial farms. Interest rate charged for these projects should be 3.5 percentage points above the minimum DBE-bond rate.

### **16.3. Joint venture Incentives**

- Selected agro-processing projects to be established through joint venture and whose export accounts between 40% to 60% of total sales and transfer technology to the country. The interest rate applied for these projects shall be 3.5 percent point above the minimum DBE-bond rate.

## **17. Maintenance and Provision of Financial and Other Records**

- 17.1.** The Bank requires all its borrowers to maintain accurate and adequate financial records.
- 17.2.** Clients should provide annual business plan and annual audited financial records and statements.
- 17.3.** In order to release equity or disburse loans, the Bank requires the maintenance and provision of financial records, which verify the proper utilization of earlier equity release and disbursements and compliance with other loan



conditions.

- 17.4.** The Bank retains the right to periodically inspect all financial records, project site and management aspects of clients' projects.

## **18. Insurance**

To safeguard the project as well as any other property outside the project hold as collateral, the Bank should ensure that the project and any collateral is insured with DBE as co-beneficiary, and the policy is renewed upon expiry until the loan is fully settled. Insurance must be adequate for all risks and events which the project potentially faces.

## **19. Application Letter**

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

## **20. Opening current Account**

The client must open a current account with the Bank after the loan contract is signed and prior to any equity release or loan disbursement. And clients should be encouraged to use same account to deposit proceeds of the project.

## **21. Letter of Credit (L/C)**

Borrowers shall always process their export transaction through DBE.

## **22. Procurement Procedures**

Without prejudice to the international agreements entered into by the Government, 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 Directives.

## **23. Grace Period**

A grace period is a time in a project's life when a borrower may not be required to make principal loan repayment. The Bank may give its clients maximum grace period that involves period of implementation up to the commencement of operation and the grace period shall not exceed 5 years. However, the maximum grace period for tree fruits shall be 6 years.

## **24. Appeals by Customers**

The Bank cordially accepts appeals by customers on presumed misdemeanors or unfavorable decisions. Such appeals by customers can be submitted to the loan processing units in writing and resolved at any stage of the loan processing and escalated (rise), where the need

arises, to the President of the Bank for final resolution/ratification and decision at the Bank level. Appeals can also be escalated to the BOM.

## **25. Notice to Applicants**

- A company, business promoter, cooperative, 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 districts or branches.
- The Bank will provide appropriate response to applicants who seek banking services and who fulfill and submit all the requirements. Further information concerning DBE's Revised Credit and Lease Financing policies and procedures can be obtained from Head Office, districts and/or branch level.



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