



# UK-Ethiopia Investment Trade and Tourism Forum

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# Development Bank of Ethiopia (DBE) Outline



- COUNTRY PROFILE- ETHIOPIA
- FINANCIAL SECTOR IN ETHIOPIA
- BANKING SECTOR IN ETHIOPIA
- BRIEF OVERVIEW OF DBE
- ECONOMIC SECTORS FINANCED BY DBE
- LENDING STRUCTURE AND CREDIT POLICIES
- CONCLUSION



# Country Profile- Ethiopia



- **Country Name-** Conventional Long Form- Federal Democratic Republic of Ethiopia
- **Capital -** Addis Ababa
- **Government Type-**Federal State
- **Administrative Divisions-** 9 Regional States
- **Population-** 77.8 Million (2008/09 National Census of CSA)
- **Currency-** Ethiopian Birr, exchange rate 26.50 Birr to £ 1
- **GDP Per Capita-** 340 USD (NBE, 2007/08)
- **Membership of International Organizations-** United Nations (**UN**), African Union (**AU**), Intergovernmental Authority on Development (**IGAD**), Common Market for Eastern and Southern Africa (**COMESA**)

# Financial Sector in Ethiopia



The major Financial institutions operating in Ethiopia are :-

- Banks
- Insurance Companies and
- Micro- Finance Institutions

# Banking Sector in Ethiopia



The modern Banking practices were started during the regime of Emperor Menelik II in 1905. Bank of Abyssinia was the first to be established.

The number of Banks operating in the country reached 17, of which fourteen are private commercial banks and the remaining three state-owned. As far as recent data is concerned by the end of June 2010, private commercial banks are operating with 407 branches (59.9% of the total branch of the industry) across the nation. These Banks collectively had Birr 49.1 billion in asset, 21.4 Billion birr in loans, 38.3 Billion deposit and 5.9 billion Birr in terms of capital. The private Bank in total have a market share of 39.6% of total deposit and 47.5 % of the total loan outstanding balance of the Banking sector.

# Banking sector continued...



Ethiopia is regarded as fast growing economy relative to other Sub-Saharan African Countries. According to the NBE Annual Report of 2008/09, it is estimated that one bank branch serves 126,258 people.

# Contribution of Banks in the Ethiopian Economy



- Promoting investment
- Facilitating Trade
- Foreign Exchange earning
- Creation of Employment Opportunity

# Insurance Companies



- The number of Insurance Companies in the Country expanded to 12 in 2008/09 from 10 a year earlier .
- In terms of ownership, all insurance companies except the Ethiopian Insurance Corporation (EIC), are privately owned. Branch share of private insurance companies rose to 78.5 percent in 2008/09 from 75.3 percent previous year.



# Microfinance Institutions (MFIs)



- The number of microfinance institutions operating in the country is 28. Their total capital reached Birr 1.7 billion. Their total asset is Birr 6.6 billion. Of the total MFIs, 13 are operating in Addis Ababa.

# Development Bank of Ethiopia- Overview



## History and Development

- The history of the Bank goes back to 1909 when it was first established under the name of **The Societe Nationale d' Ethiopie pour le Development de l'agriculture et de Commerce** (The Society for the Promotion of Agriculture and Trade).

# History Continued...



- **The Bank has taken different names at different times even though its mission and business purposes remained the same, development of the nation.**

# Mission and Vision of DBE



- **Mission of DBE**

- “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.”

- **Vision**

- “100% success for all financed projects by 2020”

# Financing areas



- September, 2009 credit policy is purely aligned to financing of government priority areas with emphasis given to export oriented projects:
- Major areas of finance include:
  - Commercial agriculture
  - Manufacturing Industries
  - Agro-processing Industries

# Credit Services of DBE



- DBE is mandated to extend investment credits to creditworthy borrowers and projects that have received a thorough appraisal and that are found to be financially profitable, economically viable and socially desirable.

# Credit Services continued...



- According to the newly revised credit policy of the Bank issued in August 2009, DBE will provide the following credit products and services.
- **Long-Term Loans**
  - fixed at 20 years including any grace period
  - Includes permanent working capital considered as part of the long term and investment capital of a project that will be recovered within the 5-15 years of loan repayment

# Credit Services continued...



- **Medium-Term Loan** – repayable within 3 to 5 years including any grace period.
- **Working Capital Loan** – used for extension of inventory cycle, increase capacity utilization and cover short-term cash flow problem.
- **Co-financing or syndicate financing**
- **Guarantee services, i.e. Export guarantee service**
- **Managed funds**
- **Loan Transfer**
- **Loan Buy Out**



# Credit Services continued ...



- **DBE's main area of focus is provision of long- and medium-term loans for investment projects in the Government's priority areas.**

# Lending structure



- The Bank extends its credit service through the Head office and 12 branches organized under five regions
- Each region is empowered to extend loan up to Birr 15 million in priority area projects
- Loan in excess of Birr 15 million is the jurisdiction of the Head office credit process
- In addition to extending fresh loans the Bank has established project rehabilitation and foreclosure units recently at the head office and regional offices-The office is mainly responsible to rehabilitate loans. However, it undertake foreclosure action as a last resort.
- The Bank has also strengthen its foreign Banking services to its clients that include regional offices too.

# Credit Policy Continued...



## Equity (Capital) Contribution

- For purpose of commitment to the success of the project to be financed, the applicant shall be required to make a contribution towards the project cost.
- The contribution shall not in any event be less than thirty percent (30%) of total project cost.

# Credit Policy Continued...



## 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 8.5%.

## 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 of the project itself.

# Credit Policy Continued...



The Bank shall revalue collateral assets every year as per the Bank's guideline.

# Credit Policy Continued...



## **Insurance**

- All fixed assets of a project as well as assets pledged as collateral are required to be covered by appropriate insurance policy with DBE as a co-beneficiary until the loan is fully settled.

# Credit Policy Continued...



## Repayment Schedule

- Loan repayment period is determined taking into account the profitability and debt servicing capacity of the borrowing concern as well as the economic life of major investment items.

## Loan Processing time

- The Loan processing time will be maximum of 32 days.

# Credit Policy Continued...



## Other Conditions

- Borrower shall employ experienced and qualified work force as specified in the loan agreement or project feasibility study.
- Borrower shall open current account with DBE's Head Office or Branch Offices.



# General Requirements to Establish a New Project



- Project feasibility and viability study documents
- Project ownership related legal documents
- Licenses and Registration certificates
- Tax and VAT Certificates
- Land lease contractual agreements
- Lease and other payment documents
- Presentation of Performa Invoices
- Equity contribution of 30%
- Collateral as required
- Historical and projected financial statements
- Fulfilment of NBE regulations

# Conclusion



- **DBE is striving to efficiently provide its financial services and successfully achieve its development objective and maintain its financial sustainability.**

AND



Thank You!

