

## **Directive No. SBB/41/2007**

Directives to Transfer Duties and Responsibilities Related to Establishment and Operation of Export Credit Guarantee Scheme from the National Bank of Ethiopia to Development Bank of Ethiopia

Whereas, national exporters need to compete on an equal footing with other exporters in increasingly competitive foreign markets and satisfy foreign buyers' requirements;

Whereas, it is necessary that exporters with bona-fide export orders should not lose the export opportunity due to inability to get bank credit;

Whereas, operation of enhanced export credit guarantee schemes has been found to be supportive of the export sector by availing the necessary financial resources from banks for pre and post-shipment of exports;

Whereas, export credit guarantee schemes have proved to be necessary vehicles to facilitate exporters' access to bank credit;

Whereas, the Government of Federal Democratic Republic of Ethiopia has decided to transfer duties and responsibilities related to establishment and operation of export credit guarantee scheme from National Bank of Ethiopia to Development Bank of Ethiopia;

Now, therefore, in accordance with Articles 6 and 61 of the Monetary and Banking Proclamation No. 83/1994, the National Bank of Ethiopia hereby issues these directives.

### Article 1

#### Definitions

For the purpose of these directives, unless the context provides otherwise:

"The Bank" shall mean National Bank of Ethiopia;

"Guarantor" shall mean Development Bank of Ethiopia;

"Financing Banks" are licensed commercial banks (excluding Development Bank of Ethiopia) in Ethiopia;

"Bankable Export Project" shall mean a project appraised by financing banks in line with their applicable credit policy and procedures and found within acceptable risk level by the Guarantor;

"Export" is non-coffee export;

"Export Credit Guarantee" shall mean a guarantee provided by the Guarantor to safeguard export financing banks against losses resulting from the export transactions they finance;

"Exporter" is a person engaged in non-coffee exports;

"Existing Exporters" shall mean exporters who have been engaged in export business for at least 12 months prior to the date of application for export loan under export credit guarantee scheme who can produce evidence of receipt of export proceeds over those months;

"New Exporters" shall mean exporters who have been engaged in export business for less than 12 months at the time of applying for export loan under export credit guarantee scheme;

"Fund" is a special fund created by the Guarantor for financing guarantee settlements under Export Credit Guarantee Scheme;

"Outstanding Active Export Credit Guarantees" shall mean guarantees issued by the Bank to financing banks, which on the effective date of these directives (i) have not expired or (ii) original due dates have expired but extended by the Bank and not yet due;

"Outstanding Inactive Export Credit Guarantees" shall mean export credit guarantees issued by the Bank before the effective date of these directives which have been (i) claimed by financing banks, or (ii) claimed by financing banks and disputed, or (iii) settled by the Bank and under litigation or transferred to Legal Services Department of the Bank for litigation;

1.13 "Perishable Export Commodities" shall mean export commodities subject to significant deterioration in quality or spoilage or decay, such as fruits, vegetables, molasses, unpreserved meat, flowers, live animals and other commodities as determined by the Bank;

1.14 "Pre-Shipment Export Credit Guarantee" is a guarantee provided by the Guarantor up to a maximum of 365 days to financing banks to cover pre-shipment export loan extended to exporters;

1.15 "Post-Shipment Export Credit Guarantee" is a guarantee provided by the Guarantor up to a maximum of 180 days to financing banks to cover post-shipment export loan extended to exporters.

## Article 2 Eligibility Criteria

Exporters shall satisfy all of the following in order to be considered eligible for export credit guarantee:

The export project to be financed under the export credit guarantee scheme shall be bankable;

Exporters shall not carry "loss" category loans, as defined in the Bank's Directives on Provisioning, owed to any bank in Ethiopia;

Exporters shall present a bona-fide order from a foreign buyer;

Exporters shall produce evidence of a valid investment certificate and/or trade license;

New exporters shall:

produce property or other collateral equivalent to at least 40% for producer exporters and 50% for other exporters of the amount of the loan requested;

produce evidence that all proceeds from non-perishable goods to be exported shall be paid through irrevocable letter of credit; however, no letter of credit shall be required for perishable export commodities;

Existing exporters shall produce from local banks documentary evidence about receipt of export proceeds in the 12 months preceding the date of application for export loan under export credit guarantee scheme;

Exporters shall submit all documents required by financing banks to conduct their normal credit risk analysis.

Financing banks may approve pre-shipment or post-shipment credit to exporters upon fulfillment of the above eligibility criteria.

### Article 3

#### Issuance of Guarantee

Upon written request of a financing bank, the Guarantor shall issue export credit guarantee to cover 80% of the outstanding loan balance and interest thereof extended to an exporter by the financing bank, provided the request is acceptable to the Guarantor.

### Article 4

#### The Guarantee Amount

The Guarantor may issue export credit guarantee to:

4.1 Existing exporters, who fulfill eligibility criteria set under article 2.1 herein above, up to 100% of export proceeds actually received through financing banks from non-coffee exports in the 12 months preceding the date of application for export loan under export credit guarantee scheme;

New producer exporters, who fulfill eligibility criteria set under article 2.1 above, up to two point five (2.5) times the estimated value of the pledged collateral;

Other new exporters, who fulfill eligibility criteria set under articles 2.1 above, up to two (2) times the value of the pledged collateral;

## Article 5

### Obligations of Financing Banks

Financing banks shall:

critically evaluate credit worthiness of the exporter who applies for a loan and shall ensure that the export project to be financed is bankable;  
finance only bankable export projects;

Collect credit information from all banks in Ethiopia to ensure that an exporter applying for export loan does not carry "loss" category loans owed to any bank;

exercise all reasonable and usual care regarding operations of export financing and act with utmost good faith;

Channel to the exporter's loan account, in settlement of the loan, all export proceeds collected from an exporter after the disbursement of the loan covered by the export credit guarantee.

promptly notify the Guarantor within 15 days of the occurrence of any event or development likely to cause a loss or default;

collect on behalf of the Guarantor interest due to it on loans covered by export credit guarantee; and

act as the agent of the Guarantor to recover the due amount from the defaulting exporter and report to the Guarantor actions taken on such borrowers promptly.

Where the exporter defaults, the financing bank, subject to prior written agreement of the Guarantor, may:

extend the due date of pre or post shipment export credit covered by export credit guarantee for a maximum of 180 days if it determines that the financial position of the borrower is sound and the loan repayment problem is temporary; or

provide additional loan that may not exceed 50 percent of the existing outstanding loan covered by export credit guarantee and extend the due date of both the new and the existing loans for a maximum of 180 days if it determines that the borrower will be rehabilitated and settle the loans out of the cash flow to be generated.

Financing banks shall submit to the Guarantor:

Relevant credit risk analysis report and all other documents necessary to ensure the export project to be financed is bankable; and

Monthly export credit performance report in accordance with the table attached with these Directives or any other format developed by the Guarantor. Such report shall be filed within twenty days after the end of the reporting month.

## Article 6 Revolving Credit

Financing banks may, during the life of the export credit guarantee, repeatedly disburse loan to a borrower for export purposes equivalent to the amount of the partial or full loan settlement referred to under sub-article 5.1.5, so long as the outstanding balance of the loan does not exceed the export credit guarantee issued to cover it.

## Article 7 Obligation of the Exporter

Exporter shall:

7.1 Provide accurate information, accompanied with all supporting documents, to financing banks on their business, export activities and bank loan repayment status;

7.2 Exercise due care so as to ensure that the advances are used for the purposes they are earmarked for;

7.3 Repay the entire amount of the outstanding loan and interest thereof to the financing bank on or before due date of the loan;

7.4 In case of difficulties experienced in manufacture or shipment of goods or realization of export proceeds from foreign buyers, they should discuss the problem and the proposed course of action with their financing banks.

## Article 8 Risk Coverage

8.1 The Guarantor shall cover 80 percent of the risk, which may result from default of repayment;

8.2 The financing bank shall bear the remaining portion (20 percent) of default risk.

## Article 9 The Guarantee Fund and Fee

9.1 The Guarantor shall create a Guarantee Fund Account for funding the Export Credit Guarantee Scheme;

9.2 Financing banks shall pay, out of the interest rate stated under article 10.1 hereunder, 2 (two) percent of the outstanding loan balance covered by export credit guarantee per annum to the Guarantor calculated in line with interest income accrual or collection policy and procedure of the respective financing bank. They shall pay such interest to the Guarantor on quarterly basis;

9.3 Interest income collected in line with article 9.2 above shall be transferred to Guarantee Fund Account.

9.4 The Guarantor may invest the money in the guarantee fund account in risk free and liquid assets such as Treasury bills and transfer the income from such investments to its Income Statement.

9.5 Guarantee fund created by the Bank in line with provisions of article 9 of the Bank's Directives No. SBB/38/2006 shall be used to settle claims against export credit guarantee filed with the Bank before the effective date of these directives;

9.6 The closure of the Guarantee fund account with the Bank shall be decided by the Bank .

#### Article 10 Rate of Interest

10.1 Financing banks shall charge their respective prevailing lowest lending interest rate on pre- or post-shipment loans covered by the export credit guarantee scheme;

10.2 Non-compliance with the stipulation of the credit guarantee scheme might result in charging the penal rate used by the financing bank. In the case of proven mis-use of funds, the financing bank may demand the immediate repayment of the loan.

#### Article 11 Collateral

11.1 The Export Credit Guarantee of the Guarantor serves as part of the collateral when exporters apply for financing;

11.2 When applying for post-shipment credit, the exporter shall hand over to the financing bank all the necessary shipping and other documents relating to the goods shipped for export. Also, the exporter shall authorize the financing bank to collect or receive payment from the foreign buyer, on the basis of which the post-shipment credit is sanctioned to the exporter. Goods in possession of the financing bank are considered as additional collateral providing the necessary security for the financing bank;

11.3 In case a borrower defaults, the Guarantor and financing bank shall share the cash collateral, or any proceeds from liquidation of any property pledged as collateral, or any proceeds from liquidation of collateral secured through court ruling, in proportion to the risk they took in lending to the defaulting borrower, that is, the Guarantor shall be entitled to collect 80%, leaving the balance (20%) to the financing bank.

## Article 12 Repayment

12.1 Without prejudice to article 5.2 above, repayment period for pre-shipment credit shall not exceed 365 days. Pre-shipment advances shall be repaid by handing over the shipping documents to the financing bank within 10 days after the goods have been shipped for export. The date of shipment is the date of the stamp on the bill of lading or other shipping documents. The repayment of loan may be by way of adjusting from post-shipment credit obtained against the documents or by payment in an accepted manner;

12.2 Exporters, adjusting the pre-shipment credit, shall have the possibility of extending the credit into the post-shipment period. Exporters willing to use this facility shall have to apply well in advance to their financing bank for a post-shipment credit to avoid possible delays, after the goods have been shipped. Any non-compliance with the above stipulation may result in rejection of the exporter's post-shipment credit application and immediate repayment obligation of the pre-shipment credit;

12.3 Without prejudice to article 5.2 above, repayment period of the post-shipment credit shall not exceed 180 days. Post-shipment advances will be adjusted by the financing bank out of payments received from the foreign importer to enable it to automatically settle the outstanding debt of its exporter-borrower, after payment from the foreign buyer has been collected.

## Article 13 Settlement of Guaranteed Portion to Financing Bank

13.1 In case an export credit goes on default, the Guarantor shall pay the guaranteed portion of the loan amount lent to the exporter within seven days after the complete set of necessary documents have been presented to it. The Guarantor, however, shall not pay any interest on the export credit during the seven days following submission of complete set of documents by financing banks;

13.2 When repayment of the full or partial amount of defaulted loan is effected by the defaulting exporter to the financing bank after the settlement of the guaranteed portion, the financing bank shall transfer the money to the Guarantor within 7 days;

## Article 14 Expiry of Guarantee

14.1 Export Credit Guarantee shall be issued for a specific period of time that shall not exceed i) 365 days to cover pre-shipment export credit and ii) 180 days to cover post shipment export credit. However, the Guarantor, upon request of financing banks, may extend expiry date of the guarantee for a maximum of 180 days from its expiry date. At the last day of the guarantee period, unless extended in writing by the Guarantor, the Guarantee shall be null and void;

14.2 Under normal circumstances, the last day of the Guarantee shall be that indicated on the "Export Credit Guarantee Letter" as ending date of the Guarantee.

## Article 15

### Default and Non-compliance

15.1 Where an exporter defaults and cannot qualify for loan rescheduling or restructuring stipulated under article 5.2 above, he/she shall be suspended from all types of bank credit from the entire banking system until he/she fully settles the outstanding loan including interest and charges;

15.2 To facilitate the suspension, the Guarantor shall circulate the names of all defaulters under the export credit guarantee scheme to all banks. Moreover, the Guarantor shall publish the names of such defaulters in widely circulating newspapers;

15.3 Upon receipt of defaulters list stipulated under sub-article 15.2 above, all banks shall deny provision of new bank credit service(s) and shall not renew all existing overdraft or other credit facilities to any one exporter in the list until the Guarantor notifies them that the exporter has fully settled his/her overdue export loans;

15.4 If a financing bank does not comply with the provisions of these directives, the Guarantor maintains the power to reduce guarantee coverage and, in extreme cases, to suspend new coverage for a period of four years.

## Article 16

### Inspection

The Bank may undertake an inspection of any bank, including the Guarantor, to verify its compliance with the provisions of these Directives.

## Article 17

### Administration of Outstanding Active Export Credit Guarantees

17.1 The Guarantor shall administer outstanding active export credit guarantees issued before the effective date of these directives in line with the terms and conditions of the guarantees set at the time of their issuance.

17.2 The Bank shall transfer all files and documents in its possession related to outstanding active export credit guarantees to the Guarantor.

## Article 18

### Administration of outstanding Inactive Export Credit Guarantees

The Bank shall administer outstanding inactive export credit guarantees that are outstanding as of the effective date of these Directives until their full settlement or resolution.

Article 19  
Repeal

The Establishment and Operation of Export Credit Guarantee Scheme Directives Number SBB/38/2006 is hereby repealed and replaced by these Directives.

Article 20  
Effective Date

These directives shall come into force as of the 1st day of February 2007.