

Modified External Loan and Supplier's Credit (Directive No. 842/2021)



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National Bank of Ethiopia

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External Loan and Supplier's Credit
(As Amended)
Directives No. 842 /2021

Whereas, the National Bank of Ethiopia is vested by its establishment proclamation no. 591/2008 and Investment Proclamation no. 1180/2020 to regulate foreign exchange and having determined the procedures of registration to external loan is essentially set to be a criterion of regulating foreign exchange;

Whereas, an investor who acquires an external loan shall have also obliged to register such a loan with the National Bank of Ethiopia in accordance with the directives of the National Bank of Ethiopia;

Now, therefore, in accordance with Articles 20 and 27(2) of the National Bank of Ethiopia Establishment (as amended) proclamation No. 591/2008 and article 21(1 and 2) of Investment Proclamation no. 1180/2020, these directives are hereby issued as follows:

Article 1
Short Title

These directives may be cited as “External Loan and Supplier’s Credit (as Amended) Directives No. 842/2021.”

Article 2
Definition

In these Directives, unless the context requires otherwise:

2.1 “**All-in-cost ceiling**” means rate of interest, other fees and expenses in foreign currency excluding commitment fee and pre-payment fee.

2.2 “**Bank**” means a company licensed by the National Bank of Ethiopia to undertake banking business or a bank owned by the Government;

- 2.3 **“Exporter”** A person that sells goods or services that generate foreign currency;
- 2.4 **“External loan”** means a loan acquired from an eligible recognized lender and approved and registered by the National Bank of Ethiopia;
- 2.5 **“Foreign capital”** means paid up capital obtained from foreign sources, and includes the re-invested profits and dividends of a foreign investor and registered by pertinent government body;
- 2.6 **“Foreign Investors”** means a foreigner or an enterprise wholly foreign nationals, having invested foreign capital in Ethiopia or a foreigner or an Ethiopian incorporated enterprise owned by foreign nationals jointly investing with domestic investor, and includes an Ethiopian permanently residing abroad and preferring treatment as a foreign investor;
- 2.7 **“Guarantee”** means any signed undertaking, however named or described, providing for payment on presentation of a complying demand;
- 2.8 **“Investor”** means a domestic or a foreign investor having invested in Ethiopia;
- 2.9 **“Manufacturing Sector”** means sectors that consist of Ethiopian investors who produce goods for domestic market for consumption and/or as inputs for manufacturing, agriculture and other economic activities.
- 2.10 **“Supplier’s credit”** means an interim short term financing provided by a third party supplier;
- 2.11 **“Usance Letter of credit”** means a deferred payment letter of credit payable at a determined future date after presentation of conforming documents;
- 2.12 **“Person”** means any natural or juridical person;

Article 3

General

- 3.1 External loan guaranteed by Federal Government of Ethiopia shall be registered by the National Bank of Ethiopia by presenting the agreement and the guarantee issued there to.
- 3.2 An eligible borrower except stated under article 3.1 shall first get approval from the National Bank of Ethiopia before entering to external loan and supplier’s credit agreement with the lender/supplier.
- 3.3 An eligible borrower shall register the foreign loan remitted in cash or in kind by producing the necessary documents.

3.4 No repayment in convertible foreign currency may be allowed for the purpose of payment of external loan or supplier's credit unless registered by the National Bank of Ethiopia.

3.5 A Bank is allowed to open usance letter of credit for an exporter who imports equipment, raw materials, machineries and accessories for his export business against future export proceed.

Article 4

Eligible Borrowers and Requirements

4.1 Exporter

4.1.1 An exporter is eligible to acquire an external loan or supplier's credit provided that the acquired loan is going to finance an export - oriented investment that generates foreign currency.

4.1.2 A domestic investor who is engaged in projects that generate foreign currency is eligible to acquire external loan.

4.1.3 The following requirements shall be fulfilled for approval and registration of external loan or supplier's credit to be acquired by an exporter:

- a) Application letter;
- b) Valid export license given by pertinent licensing authority;
- c) For External loan; The draft loan agreement with detailed terms showing interest rates and applicable charges, loan disbursement schedule, repayment schedule, borrower-lender relationship, purpose of the loan and other particulars as may be deemed necessary by the National Bank of Ethiopia
- d) For suppliers credit; Pro-forma invoice with repayment period and term of payment
- e) Document justifying the capacity to repay the loan

4.2 Foreign Investor

4.2.1 A foreign investor is eligible to acquire external loan when it fulfills all requirements of article 4.2.2 and 4.2.3 of these directives

4.2.2 The debt to equity ratio may not exceed 60:40 of the foreign capital

4.2.3 The following requirements shall be fulfilled for approval of external loan and/or supplier's credit to be acquired by foreign investor:

- a) Application letter;
- b) Valid investment or any other valid business license given by pertinent licensing authority as the case may be applicable;
- c) Foreign capital registration certificate issued by pertinent government body
- d) For external loan, the draft loan agreement with detailed terms showing interest rates and applicable charges, loan disbursement schedule. repayment schedule, borrower-lender relationship, purpose of the loan and other particulars as may be deemed necessary by the National Bank of Ethiopia;
- e) For suppliers credit; Pro-forma invoice with a minimum 180 days credit period and a minimum of 1 year for external loan repayment period.

4.3 Manufacturing Sector

4.3.1 A Manufacturing sector is eligible to acquire external loan when it fulfills all requirements of article 4.3.2 and 4.3.3 of these directives.

4.3.2 The debt to equity ratio may not exceed 60:40 of registered capital in Manufacturing business license

4.3.3 The following requirements shall be fulfilled for approval of external loan and/or supplier's credit to be acquired by Manufacturing Sector.

- a) Application letter;
- b) Valid Manufacturing business license given by pertinent licensing authority as the case may be applicable;
- c) Capital registration certificate issued by pertinent government body
- d) For external loan, the draft loan agreement with detailed terms showing interest rates and applicable charges, loan disbursement schedule. repayment schedule, borrower-lender relationship, purpose of the loan and other particulars as may be deemed necessary by the National Bank of Ethiopia;
- e) For suppliers credit; Pro-forma invoice with a minimum 1year credit period and a minimum of 1 year for external loan repayment period.

Article 5

Approval and Registration of External Loan

- 5.1. The National Bank of Ethiopia shall issue approval letter for external loan and suppliers credit if all conditions are fulfilled under article 4.1, 4.2 and 4.3
- 5.2. The National Bank of Ethiopia shall register external loan up on presentation of the following documents:
- a) Application letter;
 - b) A bank advise (if the loan is in cash);
 - c) Customs declaration and all relevant shipping documents (if the loan is in kind);
 - d) Copy of external loan approval letters

Article 6

All-in- Cost Ceilings

- 6.1. The all-in-cost ceilings for external loan shall be:

Average Maturity Period	All-in-cost Ceilings
Up to three years	six month LIBOR or Equivalent in EURIBOR Plus 2%
Three years and up to five years	six month LIBOR or Equivalent in EURIBOR Plus 3%
More than five years	six month LIBOR or Equivalent in EURIBOR Plus 5%

- 6.2. When changing international market requires, the National Bank of Ethiopia may vary the all in cost ceiling stated here in above.

Article 7

Guarantees

Any form of guarantee may not be issued by government and banks for private loan.

Article 8
Repayment of External Loan

8.1 The National Bank of Ethiopia shall approve repayment of external loan provided that the repayment request is as per the conditions mentioned in article 5 of these Directives.

8.2 The following documents should be presented to the National Bank of Ethiopia for approval of an external loan repayment:

- a) Application letter;
- b) Copy of external loan registration letter and
- c) Loan repayment schedule showing the computation of principal, interest and other charges as may deemed necessary by the National Bank of Ethiopia.

Article 9

Repeal

External Loan and Supplier's Credit Directives No./801/2021 is hereby repealed and replaced by this Directive.

Article 10

Effective Date

These Directives shall enter into force as of **October 1, 2021**.