

## Directive No. SBB/34/2004

### The Establishment and Operation of Export Credit Guarantee Scheme Directive

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

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 on Establishment and Operation of Export Credit Guarantee Scheme.

#### Article 1 Definitions

For the purpose of these directives, unless the context provides otherwise:  
"Export Credit Guarantee" shall mean a guarantee provided by the Bank to safeguard export financing banks against losses resulting from the export transactions they finance;

- 1.2 "Exporter" is a person engaged in non-coffee exports;
- 1.3 "Export" is non-coffee export;
- 1.4 "The Bank" is the National Bank of Ethiopia;
- 1.5 "Financing Banks" are licensed commercial banks in Ethiopia;

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- 1.6 "Pre-Shipment Export Credit Guarantee" is a guarantee provided by the Bank upto a maximum of 180 days to the exporter to cover pre-shipment export loan extended by a financing bank starting from the issue date of the guarantee;
- "Post-Shipment Export Credit Guarantee" is a guarantee provided by the Bank upto a maximum of 180 days to the exporter to cover post-shipment export loan extended by a financing bank starting from issue date of the guarantee;
- 1.8 "Fund" is a special fund created by the Bank for financing Export Credit Guarantee Scheme;
- "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;

“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;

“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 and 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.

## Article 2 Eligibility Criteria

Exporters shall satisfy all of the following in order to be considered eligible for pre-or post-shipment 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 National Bank of Ethiopia’s Directives on Provisioning, owed to any bank in Ethiopia;

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

d. 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

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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;

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

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

## Article 3 Issuance of Guarantee

Upon written request of a financing bank, the Bank shall issue pre- or post-shipment export credit guarantee to cover 80% of the outstanding loan balance and interest thereof extended to an exporter provided the request is acceptable to the Bank.

#### Article 4

##### The Guarantee Amount

The Bank may issue export credit guarantee to:

4.1 Existing exporters, who fulfill eligibility criteria set under article 2.1 herein above, upto 100% of export proceeds actually received through financing banks from export of 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, upto 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 upto two (2) times the value of the pledged collateral;

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#### Article 5

##### Obligations of Financing Banks

5.1 Financing banks shall:

a. 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;

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

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

f. collect on behalf of the Bank interest due to the Bank on loans covered by export guarantee; and

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

Where the exporter defaults, the financing bank may:

a. extend the due date of export loan 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

b. 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.

5.3 Financing banks shall submit to the Supervision Department of the Bank:

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 this Directive.

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#### Article 6 Obligation of the Exporter

Exporter shall:

6.1 Provide accurate information, accompanied with all supporting documents, to financing banks on their business, export activities and bank loan repayment status; Exercise due care so as to ensure that the advances are used for the purposes they are earmarked for;

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

6.4 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 7 Risk Coverage

The Bank shall cover 80 percent of the risk which may result from default of repayment;

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

#### Article 8 The Guarantee Fund and Fee

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

Financing banks shall pay, out of the interest rate stated under article 9.1 here under, 2 (two) percent of the outstanding loan balance covered by pre-shipment export credit guarantee per annum to the Bank calculated in line with interest income accrual or collection policy and procedure of the respective financing bank.

They shall pay such interest to the Bank on quarterly basis;

Interest income collected in line with article 8.2 above shall be transferred to Guarantee Fund Account of the Bank by debiting the reserve account of the financing bank;

#### Article 9 Rate of Interest

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

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 10 Collateral

10.1 The pre-or post-shipment credit guarantee of the Bank serves as part of the collateral when applying to a financing bank for pre-or post-shipment finance; 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;

In case a borrower defaults, the Bank 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 Bank shall be entitled to collect 80% leaving the balance (20%) to the financing bank.

#### Article 11 Repayment

11.1 Without prejudice to article 5.2 above, repayment period for pre-shipment credit shall not exceed 180 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;

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;

11.3 Without prejudice to article 5.2 above, 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 12

### Settlement of Guaranteed Portion to Financing Bank

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

12.2 When repayment of the full amount of defaulted loan is effected after the due date by an exporter, the financing bank shall inform the Bank within 7 days to debit its reserve account by the amount which it received from the Export Credit Guarantee Fund.

## Article 13

### Opening of a Special Unit

13.1 Financing banks utilizing the Export Credit Guarantee Scheme shall establish within their head offices a special unit, which will deal with the assessment and approval of export credit guarantee applications with the view of facilitating the operations of the scheme.

13.2 The special units created by financing banks in line with requirement of article 13.1 shall have their own operational manual approved by the Bank.

## Article 14

### Expiry of Guarantee

14.1 Export Credit Guarantee will be issued for a specific period of time that shall not exceed 180 days. However, the Bank, upon request of financing banks, may extend expiry date of the guarantee. At the last day of the guarantee period, unless extended in writing by the Bank, the Guarantee shall be null and void; 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.

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## Article 15

### Default and Non-compliance

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;

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

Upon receipt of defaulters list stipulated under 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 Bank notifies them that the exporter has fully settled his/her overdue export loans;

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

#### Article 16

##### Inspection by the Bank

The Bank may undertake an inspection of any financing bank at any time to verify that the financing bank complies with the provisions of these Directives.

#### Article 17

##### Repeal

The Establishment and Operation of Export Credit Guarantee Scheme Directive Number SBB/33/2002 is hereby repealed and replaced by these Directives.

#### Article 18

##### Effective Date

These directives shall come into force as of the 1st day of March 2004.