Federal Democratic Republic of Ethiopia

Data Collection Survey on Development Finance Sector in Federal Democratic Republic of Ethiopia

Final Report

August 2013

Japan International Cooperation Agency (JICA)

Japan Economic Research Institute Inc.

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Abbreviation List

CBB	Construction and Business Bank
CBE	Commercial Bank of Ethiopia
DBE	Development Bank of Ethiopia
DBJ	Development Bank of Japan
DFID	Department for International Development
ETB	Ethiopian birr
GTP	Growth and Transformation Plan
IDA	International Development Association
IMF	International Monetary Fund
JERI	Japan Economic Research Institute
JICA	Japan International Cooperation Agency
MOFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
USD	US dollar
WB	World Bank

Chapter 1 Overview of the economy, public debt and finance

1-1. GTP

Under the Growth and Transformation Plan (GTP, a medium-term strategic framework for the five-year period of 2010/11 through 2014/15), the Ethiopian Government is promoting infrastructure and private sector development, thereby enhancing the industrial structure based on agriculture and light manufacturing. Ethiopia hopes to become a middle income country by 2023; thus, GTP's targets tend to be ambitious.

Table 1-1 GTP's targets (2009/10 → 2014/15; excerpts)

Macro economy

Real GDP growth rate: 11 → 11.2 %

GDP per capita: 401 → USD 698

Exports of goods and services to GDP: 10.5 → 31.2 %

Imports of goods and services to GDP: 27.3 → 45.7%

Industries

Agriculture value added: 58 → 86 billion birr

Sugar product: 18 → 43 million tons

Textile and garment industry export: 22 → 100 million birr

Cement production capacity: 2.7 → 27 million ton

Infrastructure Development

Power generating capacity: 2,000 → 8,000 MW

Mobile telephone subscribers: 7.6 → 64.4 million people

Internet service subscribers: 0.2 → 7.2 million people

Railway network: 0 → 2,000 km

Road network: 49,000 → 136,000 km

Potable water coverage: 68.5 → 98.5 %

Source: MOFED, Growth and Transformation Plan, 2010.

However, the International Development Association (IDA) and International Monetary Fund (IMF) point out the following issues regarding the feasibility of the GTP.

Table 1-2 Issues on GTP by IDA and IMF

- The GTP's growth targets are very ambitious. - The mobilization of much higher domestic savings needed to finance the GTP is not likely. - Financing the GTP through external non-concessional borrowing would significantly increase the risk of debt distress, working against the need to attract financing on the best possible terms. - Ethiopia's approach to industrial development is largely ineffective given the extremely low level of manufacturing, low productivity levels, and persistent trade deficit. - The GTP's transport infrastructure investment plan is ambitious with limited information on its implementation strategy. - The GTP does not address issues relating to public financial management. - Poor supervision and inadequate training in survey data collection negatively impacts the data quality, which forms the bedrock of an effective monitoring and evaluation strategy. - Efficient implementation of the strategy will require continued improvements in public expenditure management. - Large uncovered financing needs, inadequate supporting structural reform, and lack of prioritization threaten the GTP's goals.

Source: IDA and IMF, Joint Staff Advisory Note on GTP, 2011.

1-2. Macro economy

Though public investments contribute to the continued GDP growth, inflation remains high. Negative real interest rates discourage saving, thus domestic funds remain insufficient. (Hereafter in the following tables, for instance, "10/11" indicates the fiscal year from July 2010 to June 2011.)

Table 1-3 Macro-economic forecasts

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	
Population	81	83	85	87	89	91	93	95	97	99	million
GDP (current birr)	335	383	511	726	858	995	1,165	1,357	1,575	1,826	birr billion
GDP (current $)	32.3	29.7	31.7	41.9	46.3	49.7	54.4	59.2	64.2	69.6	$ billion
Real GDP growth	10.0	8.0	7.5	7.0	6.5	6.5	6.5	6.5	6.5	6.5	%
GDP per capita	397	358	374	483	521	546	585	623	661	703	$
Consumer prices	8.5	8.1	33.2	22.8	8.3	9.6	9.0	9.0	9.0	9.0	%

(IMF estimates after 2010/11)

Source: IMF, World Economic Outlook Database.

1-3. Industries

Agriculture comprises about half of the GDP, while manufacturing (agro processing, textiles, leather, shoes, sugar, etc.) is only 4%; industrial agglomeration is not sufficient. Products' value added should be enhanced, and sales should be expanded both in domestic and overseas markets.

Table 1-4 GDP by sectors

	05/06	10/11	
Agriculture, forestry, fishing, hunting	47.9	46.4	%
Mining	0.6	1.7	
Manufacturing	4.5	3.6	
Electricity, gas, water	1.9	1.1	
Construction	5.7	4.2	
Wholesale, retail, hotels, restaurants	14.9	18.3	
Transport, storage, information, communications	5.6	5.2	
Finance	8.5	11.7	
Government	4.5	3.3	
Others	5.9	4.5	

Source: AfDB, et al., African Economic Outlook: Ethiopia, 2012.

1-4. Trade balance

In terms of trade, export items are limited to primary products such as coffee, sesame, flowers, and gold. By contrast, oil and grain constitute most of the import products of the country. Influenced by increased prices of oil and primary products, Ethiopia experiences trade deficit.

While having limited measures of market intervention, Ethiopia has decreased the foreign exchange reserves up to less than two-months of imports through selling US dollars. (A rule of thumb is that, foreign exchange reserves are expected to be more than three months of imports, though it depends on the individual situation.) The National Bank of Ethiopia (NBE) recognizes the necessity of increasing the reserves, but does not intend to do so immediately, considering the opportunity cost of maintaining large foreign exchange reserves.

Table 1-5 Trade balance

	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	
Exports	2.0	2.7	3.2	3.6	4.0	4.6	5.3	6.0	$ billion
Imports	8.3	8.3	11.2	12.9	13.6	14.6	16.3	17.5	
Trade balance	−6.3	−5.5	−8.0	−9.3	−9.6	−10.0	−11.0	−11.4	
Services	0.5	0.8	0.7	1.0	1.2	1.3	1.4	1.4	
Incomes	−0.1	−0.1	−0.2	−0.2	−0.3	−0.3	−0.3	−0.4	
Private transfers	2.7	3.2	3.2	3.1	3.5	3.5	3.9	4.2	
Official transfers	1.9	1.9	1.7	1.9	2.0	2.1	2.2	2.3	
Current account balance	−1.3	0.2	−2.6	−3.6	−3.2	−3.4	−3.8	−3.9	
Foreign direct investments	1.0	1.2	1.3	1.5	1.8	2.1	2.2	2.6	
Long term loans/investments	1.6	1.2	1.3	2.0	1.8	1.7	2.0	1.6	
Capital account balance	2.6	2.5	2.6	3.6	3.6	3.8	4.2	4.2	
Errors and omissions	−0.6	−1.3	−1.3	0.0	0.0	0.0	0.0	0.0	
Balance of payments	0.7	1.4	−1.2	0.0	0.4	0.4	0.4	0.2	
Foreign exchange reserves	2.0	3.0	2.1	2.1	2.5	2.9	3.3	3.5	$ billion
(Months of imports)	2.4	2.8	1.7	1.6	1.8	1.8	1.9	1.9	months

(IMF estimates after 2011/12)

Source: IMF, Country Report: Ethiopia, 2012.

1-5. Exchange rates

Ethiopia's economic fundamentals are still vulnerable, and the exchange rate has continued to depreciate. The IMF observes that birr is overvalued and anticipates continued depreciation. (NBE authority interviewed by the authors also admits the possibility of further depreciation.)

Table 1-6 Exchange rates

	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	12/12	
birr per dollar	8.7	8.8	8.8	9.1	9.7	11.4	13.7	17.1	17.9	18.2	Br/$

Source: MOFED, Public sector debt statistical bulletin.

1-6. Fiscal balance

The Government of Ethiopia has made efforts to increase the tax revenue, while implementing restrained fiscal policy to control the inflation. However, the fiscal deficit is expected to expand because the government expenditure is increasing due to the GTP and other necessities. The deficit is expected to be financed by external and domestic debts.

Table 1-7 Fiscal budget

	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	
Revenue	**66.2**	**85.6**	**112.2**	**128.1**	**150.7**	**176.5**	**206.1**	**238.2**	birr billion
Tax revenue	43.3	59.0	86.2	104.0	122.9	145.8	171.0	198.0	
Grants	12.4	16.5	13.0	11.7	13.4	13.8	15.5	17.5	
Other revenue	10.5	10.1	13.0	12.4	14.4	16.9	19.6	22.7	
Expenditure	**71.3**	**93.8**	**129.0**	**153.5**	**173.8**	**201.4**	**234.6**	**268.7**	
Capital expenditure	39.3	53.3	74.3	88.5	97.4	110.9	129.1	146.6	
Recurrent expenditure	32.0	40.5	54.8	65.1	76.4	90.6	105.5	122.1	
Fiscal balance	**-5.1**	**-8.2**	**-16.8**	**-25.4**	**-23.1**	**-24.9**	**-28.5**	**-30.5**	
Financing	**5.1**	**8.2**	**16.8**	**25.4**	**23.1**	**24.9**	**28.5**	**30.5**	
External financing	4.1	7.8	5.5	12.4	12.9	13.1	14.6	14.5	
Domestic financing	1.0	0.4	11.3	13.0	10.2	11.8	13.9	16.0	

(IMF estimates after 2011/12)

Source: IMF, Country Report: Ethiopia, 2012.

1-7. External debt

Ethiopia reached the completion point of the Heavily Indebted Poor Countries (HIPC) Initiative in 2004, and obtained debt relief from major creditors in the following years. Thereafter IMF has continued the Article IV Consultation and related authorities like the Ministry of Finance and Economic Development (MOFED) have continued their vigilance on the external debts.

Ethiopia's public debt has expanded due to the external debt increase, though the magnitude is still small. As of December 2012, external debt is about birr 10 billion, and the total public debt is about birr 15 billion.

Table 1-8 Public debt outstanding

	6/06	6/07	6/08	6/09	6/10	6/11	6/12	12/12	
External debt	6.0	2.3	2.8	4.4	5.6	7.8	8.9	10.2	$ billion
Domestic debt	4.6	5.5	5.6	5.0	4.4	3.8	4.4	4.4	
Total public debt	10.6	7.8	8.3	9.3	10.1	11.6	13.3	14.6	

Source: MOFED, Public sector debt statistical bulletin.

Developed countries which are members of the Paris Club cooperate in aid policies for the development of Ethiopia. Bilateral debt to the Paris Club countries decreased from June 2004 to June 2005, and debt to multilaterals drastically decreased from June 2006 to June 2007. However, the presence of non-Paris Club countries has gradually expanded, too.

Table 1-9 External debt by creditors

	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	12/12	
Multilaterals	4.6	4.9	4.9	1.2	1.5	2.0	2.7	3.6	4.0	4.4	$ billion
Bilaterals (Paris Club)	1.9	0.2	0.3	0.4	0.5	0.5	0.4	0.5	0.4	0.4	
Bilaterals (non Paris Club)	0.5	0.4	0.4	0.4	0.5	0.7	1.0	1.4	1.9	2.3	
Commercial banks	0.2	0.3	0.3	0.3	0.2	0.2	0.3	0.9	1.2	1.8	
Suppliers	0.0	0.0	0.0	0.0	0.0	0.9	1.2	1.4	1.4	1.4	
External debt outstanding	7.3	5.9	6.0	2.3	2.8	4.4	5.6	7.8	8.9	10.2	

Source: MOFED, Public sector debt statistical bulletin.

MOFED manages the state's debt using the Debt Management and Financial Analysis System (DMFAS[1]) developed by the United Nations Conference on Trade and Development (UNCTAD) and monitors the non-concessional loans. MOFED recognizes the state-owned enterprises' borrowings are increasing, and closely monitors them because they can ultimately become the state's debt once state-owned enterprises are privatized or liquidated in a certain circumstance. Furthermore, IMF and other relevant institutions are closely observing the

[1] The DMFAS is managed by UNCTAD in Geneva. The objectives of the DMFAS Program are to assist effective debt management; to provide technical assistance to government offices in charge of debt management; to advance debt analysis and management systems; and to act as a focal point for discussion and exchange of experiences in debt management. The Program's debt management software system is currently installed in over ninety government institutions, almost exclusively ministries of finance and/or central banks. (Wikipedia)

consequences.

While the majority of the external debts are the government and government-guaranteed debts, non-government-guaranteed debts are increasing, too. The government external debt refers to all external loans contracted between external creditors and MOFED. The government-guaranteed external debt consists of loans and suppliers' credits contracted by state-owned enterprises, mainly by the Ethiopian Electric Power Corporation (EEPCo), the Sugar Corporation, the Ethiopian Railways Corporation, the Ethiopian Shipping Lines, and the Commercial Bank of Ethiopia. The non-government-guaranteed debt includes loans contracted by state-owned enterprises, mainly the Ethiopian Airlines and Ethio Telecom.

Table 1-10 External debt by guarantee types

	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	12/12	
Government debt	**6.9**	**5.4**	**5.7**	**2.0**	**2.5**	**3.1**	**3.7**	**4.7**	**5.4**	**6.0**	$ billion
Multilaterals	4.5	4.7	4.9	1.2	1.5	2.0	2.5	3.3	3.8	4.1	
Bilaterals	2.4	0.7	0.8	0.8	1.0	1.0	1.2	1.4	1.7	1.9	
Gov. guaranteed	**0.2**	**0.2**	**0.0**	**0.0**	**0.0**	**0.3**	**0.7**	**1.0**	**1.3**	**1.6**	
Multilaterals	0.2	0.2	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.3	
Bilaterals	0.0	0.0	0.0	0.0	0.0	0.2	0.3	0.4	0.6	0.8	
Commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	
Suppliers	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	
Non gov. guaranteed	**0.2**	**0.3**	**0.3**	**0.3**	**0.2**	**1.0**	**1.3**	**2.0**	**2.2**	**2.6**	
Commercial banks	0.2	0.3	0.3	0.3	0.2	0.2	0.3	0.8	0.9	1.4	
Suppliers	0.0	0.0	0.0	0.0	0.0	0.8	1.0	1.2	1.2	1.2	
External debt outstanding	**7.3**	**5.9**	**6.0**	**2.3**	**2.8**	**4.4**	**5.6**	**7.8**	**8.9**	**10.2**	

Source: MOFED, Public sector debt statistical bulletin.

Public companies may borrow in non-concessional terms for their large-scale projects, closely monitored by MOFED. Dam construction projects such as the Grand Renaissance Dam are important from a view point of the national strategy in Ethiopia, however, financing for such big-scale projects can be an issue.

Regarding the external debt disbursements, China and commercial banks have increased their weight.

Table 1-11 External debt disbursements by creditors

	7/03 -6/04	7/04 -6/05	7/05 -6/06	7/06 -6/07	7/07 -6/08	7/08 -6/09	7/09 -6/10	7/10 -6/11	7/11 -6/12	7/12 -12/12	
Multilaterals	0.3	0.4	0.2	0.3	0.3	0.6	0.9	0.7	0.7	0.3	$ billion
Bilaterals (Paris Club)	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	
Bilaterals (non Paris Club)	0.0	0.0	0.0	0.0	0.1	0.3	0.3	0.4	0.5	0.4	
China	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.3	0.4	0.4	
India	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	
Commercial banks	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.7	0.4	0.6	
Suppliers	0.0	0.0	0.0	0.0	0.0	0.9	0.4	0.3	0.1	0.0	
External debt disbursement	0.5	0.5	0.4	0.4	0.4	1.8	1.6	2.0	1.7	1.4	

Source: MOFED, Public sector debt statistical bulletin.

New external loan commitments are as follows. China has made many commitments.

Table 1-12 New external loan commitments

Central government (except those from multilateral agencies)

	Sign date	Amount $ mil.	Interest %	Maturity yrs	Grace yrs	Sector
Abu Dhabi Fund	10/2012	10.0	1.50	20	5	Highway
Korea Eximbank	6/2012	78.4	0.01	29	5	Electrical distribution
India's Exim Bank	4/2012	47.0	1.75	25	6	Sugar
China Gov't	1/2012	15.9	0.00	20	10	Frame agreement
China Gov't	12/2011	4.7	0.00	20	10	Frame agreement
Saudi Fund	10/2011	25.0	1.00	30	6	Highway road
China Eximbank	9/2011	62.5	2.00	20	7	
China Eximbank	8/2011	100.0	2.00	21	8	Water & sewage
China Gov't	4/2011	4.6	0.00	20	10	
China Eximbank	3/2011	88.5	2.00	21	8	
India's Exim Bank	12/2010	213.3	1.75	20	5	
China Eximbank	11/2010	99.5	2.00	20	8	
China Gov't	9/2010	4.4	0.00	20	10	
Saudi Fund	3/2010	10.0	1.00	30	6	
BADEA	3/2010	10.0	1.00	30	10	
Quwait Fund	3/2010	24.2	2.00	25	5	
China Eximbank	1/2010	25.3	2.00	20	8	
China Eximbank	11/2009	349.0	2.00	20	7	
BADEA	5/2009	10.0	1.00	20	10	
India's Exim Bank	1/2009	166.2	1.75	20	5	
BADEA	6/2008	9.0	1.00	20	10	
India's Exim Bank	10/2007	122.0	1.75	21	6	

BADEA: Arab Bank for Economic Development in Africa.

Government-guaranteed

	Sign date	Amount $ mil.	Interest %	Maturity yrs	Grace yrs	Sector
China Dev. Bank	12/2012	25.0	L 6m+2.6	10	3	DBE
China Eximbank	6/2011	123.0	L 6m+2.35	12	3	Sugar
China Eximbank	6/2011	475.0	L 6m+2.6	23	3	Railways
China Eximbank	12/2010	234.8	3.07	11	4	
China Eximbank	10/2010	295.9	2.43	12	3	
AFD	2/2009	59.8	Euribor 6m+2	15	4	
BNP Paribas	5/2009	44.7	Euribor 6m+4.5	7	2	
BNP Paribas	5/2009	172.8	Euribor 6m+2	12	2	

L: Libor (London Inter-bank Lending Rate), Euribor: Euro Interbank Offered Rate, 6m: 6 months, +: additional basis points

AFD: Agence Française de Développement

Non-government-guaranteed

	Sign date	Amount $ mil.	Interest %	Maturity yrs	Grace yrs	Sector
Export Dev. Canada	9/2012	112.5	L 3m+na	12	0	Air transport carriers
JP Morgan	3/2011	401.6	L 3m+0.9	12	0.5	Air transport carriers
JP Morgan	10/2011	192.7	L 3m+0.44	12	0.5	Air transport carriers
Citibank	9/2010	635.0	0.63	12	3	

Source: MOFED, Public sector debt statistical bulletin.

As to the non-government-guaranteed debts, the Ethiopian Airlines borrowed from a commercial bank; the loan is guaranteed by the Export-Import Bank of the United States (in relation to the Boeing Company).

1-8. Domestic debt

NBE has provided huge direct advances to the government (maturity: 3~5 years, interest rate: 3%). NBE stopped doing so in July 2011 to reduce inflation; however, NBE resumed advancing birr 2 billion out of a planned birr 9 billion, during the second half of 2012/13. Government bonds are purchased by NBE and CBE, while treasury bills are bought by the Development Bank of Ethiopia (DBE) and the Pension and Social Security Authority (PSSA). While the balance of the government bonds is decreasing, the balance of the treasury bills is steadily increasing.

Table 1-13 Domestic debt outstanding

12/12	Total	NBE	CBE	DBE	PSSA	Others	
Government bonds	12.0	9.2	2.6	0.1	0.1	0.0	birr billion
Treasury bills	21.4	0.0	0.0	7.7	7.0	6.7	
Direct advances	46.3	46.3	0.0	0.0	0.0	0.0	
Domestic debt outstanding	79.7	55.5	2.6	7.8	7.1	6.7	

6/12	Total	NBE	CBE	DBE	PSSA	Others	
Government bonds	12.1	9.3	2.6	0.1	0.1	0.0	birr billion
Treasury bills	19.9	0.0	0.0	7.7	6.3	5.9	
Direct advances	46.3	46.3	0.0	0.0	0.0	0.0	
Domestic debt outstanding	78.2	55.6	2.6	7.8	6.4	5.9	

6/11	Total	NBE	CBE	DBE	PSSA	Others	
Government bonds	12.5	9.3	2.9	0.2	0.1	0.0	birr billion
Treasury bills	10.3	0.0	0.0	1.6	4.1	4.7	
Direct advances	41.8	41.8	0.0	0.0	0.0	0.0	
Domestic debt outstanding	64.7	51.1	2.9	1.8	4.2	4.7	

6/10	Total	NBE	CBE	DBE	PSSA	Others	
Government bonds	13.3	9.5	3.6	0.2	0.1	0.0	birr billion
Treasury bills	11.2	0.0	1.7	0.0	3.8	5.7	
Direct advances	36.0	36.0	0.0	0.0	0.0	0.0	
Domestic debt outstanding	60.6	45.5	5.3	0.2	3.9	5.7	

6/09	Total	NBE	CBE	DBE	PSSA	Others	
Government bonds	14.0	9.6	4.0	0.2	0.2	0.0	birr billion
Treasury bills	7.8	0.0	1.7	0.0	2.9	3.2	
Direct advances	34.9	34.9	0.0	0.0	0.0	0.0	
Domestic debt outstanding	56.7	44.5	5.7	0.2	3.1	3.2	

6/08	Total	NBE	CBE	DBE	PSSA	Others	
Government bonds	14.4	9.7	4.2	0.3	0.2	0.0	birr billion
Treasury bills	7.9	0.0	2.6	0.0	2.0	3.3	
Direct advances	31.8	31.8	0.0	0.0	0.0	0.0	
Domestic debt outstanding	54.2	41.6	6.8	0.3	2.2	3.3	

6/07	Total	NBE	CBE	DBE	PSSA	Others	
Government bonds	14.7	10.0	4.4	0.1	0.2	0.0	birr billion
Treasury bills	11.5	0.0	9.0	0.0	1.7	1.0	
Direct advances	23.6	23.5	0.0	0.0	0.0	0.0	
Domestic debt outstanding	49.8	33.5	13.4	0.1	1.9	1.0	

6/06	Total	NBE	CBE	Others	
Government bonds	12.5				birr billion
Treasury bills	11.6		N/A		
Direct advances	16.1				
Domestic debt outstanding	40.2	26.1	12.5	1.6	

Source: compiled from MOFED, Public sector debt statistical bulletin.

1-9. Debt sustainability

According to MOFED, the information in the Article IV Consultation with the IMF best describes Ethiopia's debt sustainability. The table below is the essence of the IMF forecast.

Table 1-14 Debt sustainability

	11/12	12/13	13/14	14/15	15/16	16/17	21/22	31/32	
External debt (nominal)	20.9	23.3	25.0	26.1	27.3	27.7	25.3	17.1	% of GDP
PPG external debt (nominal)	18.6	19.8	21.1	22.0	23.1	23.5	21.6	13.2	% of GDP
PV of external debt	15.9	17.8	19.3	20.1	21.3	21.7	19.3	13.0	% of GDP
PV of PPG external debt	13.6	14.3	15.4	16.0	17.1	17.5	15.6	9.1	% of GDP
% of exports	94.9	98.7	102.1	103.4	106.1	106.8	94.0	55.3	%
% of government revenues	99.2	111.2	119.2	123.1	129.5	132.0	118.4	70.2	%
Debt service to exports ratio	7.6	7.5	9.1	10.5	10.8	11.4	10.7	5.1	%
PPG debt service to exports ratio	5.4	5.7	6.4	7.3	7.3	7.8	8.0	5.1	%
PPG debt service to revenue ratio	5.7	6.4	7.5	8.7	8.9	9.6	10.0	6.5	%
PV of PPG external debt / GDP+remittances	12.8	13.7	14.6	15.3	16.3	16.7	14.9	8.7	%
PV of PPG external debt / exports+remittances	67.9	73.7	75.9	79.4	81.4	82.4	72.7	42.8	%
Debt service of PPG external debt / exports+ remittances	3.9	4.2	4.8	5.6	5.6	6.0	6.2	4.0	%
Public sector debt (nominal)	34.3	40.4	41.5	41.3	41.1	40.0	32.7	21.4	% of GDP
PV of public sector debt	29.3	35.0	35.8	35.4	35.1	34.1	26.6	17.3	% of GDP
Debt service to revenue ratio	14.2	17.7	18.9	23.0	26.7	26.7	22.0	12.6	%
Debt service to revenue & grants ratio	11.0	13.6	14.5	17.8	20.9	21.1	17.4	10.0	%

(PPG: Public and publicly guaranteed)
(IMF estimates after 2011/12)

Source: IMF, Country Report: Ethiopia, 2012.

As of 2011/12, the present value (PV) of the external debt is 15.9% of GDP; of which, public and publicly guaranteed (PPG) debt is 13.6%. As to debt service ratio, the ratios both to the export and to the government revenue are less than 6% in 2011/12; the ratios are expected to increase during the GTP period, but will not exceed the threshold of 20%. If remittances are taken into account, debt service becomes even lighter.

When domestic debt is included, the PV of public sector debt comes to be over 30% of GDP during the GTP period, but it is expected to stabilize after 2021/22. The debt service to revenue ratio, especially when grants are taken into account, is expected to stay in a reasonably safe range.

Thus, the IMF states “Ethiopia maintains a low risk of external debt distress.” (IMF, Country Report: Ethiopia, 2012)

Furthermore, according to the World Bank, the amount of non-concessional borrowing will be limited, consistent with the Ethiopian Government’s intention to keep a low risk of external debt distress. Ethiopia is subject to the IDA Non-Concessional Borrowing Policy. (World Bank, Country Partnership Strategy, 2012)

As a recipient of Multilateral Debt Relief Initiative support, the Ethiopian Government has committed itself to prudent fiscal and debt management to avoid a renewed excessive buildup of external public debt. According to the World Bank, in April 2013, IDA authorized a USD 1 billion ceiling for Ethiopia for 2012/13, and in principle, a similar ceiling for 2013/14 and 2014/2015 on non-concessional or commercial terms. This implies that Ethiopia cannot borrow more than USD 1 billion per year on non-concessional or commercial terms. According to the IDA Non-Concessional Borrowing Policy, a loan counts at the point of signing the loan contract, irrespective of the disbursement profile. The debt sustainability analysis shows such a ceiling is consistent with the maintenance of low risk of external debt distress. (World Bank, Ethiopia Economic Update II, 2013)

1-10. Monetary policy

Money supply has increased to finance the infrastructure and other development projects. However, as to the financial deepening, M2/GDP is still around 20% of GDP. Moreover, the private sector credit growth is less than half of the total credit growth; therefore, the credits mostly go to infrastructure development, and the private sector seems to receive less credits.

Table 1-15 Money supply

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
M2 growth	19.7	22.9	19.9	24.3	39.2	29.8	24.7	17.7
M2/GDP	33.1	28.1	25.0	27.2	28.3	26.5	25.5	25.1
Private sector credit growth /total credit growth	38.0	36.2	34.7	55.5	30.5	30.1	40.8	44.9

(WB estimates after 2010/11)

Source: World Bank, Country partnership strategy, 2012.

The broad money (currency and demand/savings/time deposits) growth is more than 20%, but the money multiplier is only about three times. The credit creation function is limited.

Table 1-16 Broad money

	09/10	10/11	11/12	12/13	
Money (currency, demand deposits)	52.0	75.8	96.9	114.1	birr billion
Quasi money (savings/time deposits)	52.1	69.1	96.5	122.0	
Broad money	104.1	144.9	193.4	236.1	
Growth	24.3	39.2	33.5	22.1	%
Money multiplier (broad money/reserve money)	2.1	2.1	3.0	3.3	

(IMF estimates after 2011/12)

Source: IMF, Country Report: Ethiopia, 2012.

1-11. Financial gaps

Though the government has urged people to save, the gross domestic saving is still at a low level. On the other hand, gross domestic investment is more than 20% of GDP. Thus, the resource gap comes to be significant.

Table 1-17 Financial gaps

	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	
Gross domestic saving	5.2	8.8	7.6	7.5	6.9	7.7	8.3	8.6	% of GDP
Gross domestic investment	24.7	25.5	26.1	26.1	24.3	24.1	24.8	24.5	
Resource Gap	−19.5	−16.7	−18.5	−18.6	−17.4	−16.4	−16.5	−15.9	

(IMF estimates after 2010/11)
Source: IMF, Country Report: Ethiopia, 2012.

1-12. Development finance sector

NBE, the central bank, has provided direct advances to the government, and also has purchased government bonds to satisfy the government's needs. The advances are in the form of 3%, 5-year loans and are expected to be repaid. Also, NBE started to finance DBE to support the government's priority areas.

Table 1-18 NBE's loans and advances

	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	9/12	
Direct advances to government	4.8	14.8	16.4	23.5	31.8	34.9	36.4	46.3	46.3	46.3	birr billion
Government bonds	10.1	10.1	10.0	10.0	9.7	9.6	9.6	9.1	9.3	9.2	
DBE	0.4	0.0	0.0	0.0	0.0	0.0	0.0	6.3	12.5	12.5	
NBE's claims outstanding	15.3	24.8	26.5	33.5	41.6	44.5	46.0	61.6	68.1	68.0	

Source: NBE Annual Report, Statistical Bulletin.

To finance the above, NBE absorbs deposits from financial institutions. The government maintains some deposit to pool the revenues and settle operational expenditures.

Table 1-19 NBE's deposit liabilities

	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	9/12	
Government	5.6	5.3	7.0	8.7	6.2	6.7	7.0	10.3	10.2	16.9	birr billion
Financial institutions	4.9	13.2	8.8	12.4	15.5	21.4	23.3	30.4	20.5	21.8	
Deposit liabilities	10.4	18.5	15.8	21.1	21.7	28.1	30.3	40.7	30.8	38.7	

Source: NBE Annual Report, Statistical Bulletin.

In addition to the treasury bills, the government started to request private banks to buy the NBE bills in 2011 (maturity: 5 years, coupon rate: 3%). Though there are some complaints from the private banks (to be discussed later), NBE maintains the policy, and the balance increased from birr 6.3 billion in June 2011 to birr 16.5 billion in September 2012.

Table 1-20 Bills outstanding

	6/03	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	9/11	
Treasury bills	9.1	12.5	11.6	11.6	11.5	8.2	7.8	11.6	10.8	20.0	23.8	birr billion
NBE bills									6.3	12.5	16.5	

Source: NBE Annual Report, Statistical Bulletin.

Ethiopia's bond market is not developed yet. Because the coupon rate is low, private banks hesitate to assume bonds. As a result, CBE comes to be the sole corporate bond holder in the state. CBE finances EEPCO, regional governments and DBE through bond holdings.

Table 1-21 CBE's bond holdings

	6/07	6/08	6/09	6/10	6/11	6/12	9/12	
EEPCO			11.6	16.6	29.6	48.9	50.6	birr billion
Regional governments	N/A	N/A	6.0	7.0	8.9	11.0	9.3	
DBE			1.8	4.1	1.8	1.9	1.5	
CBE's bond holdings	8.0	13.2	19.3	27.7	40.3	61.8	61.4	

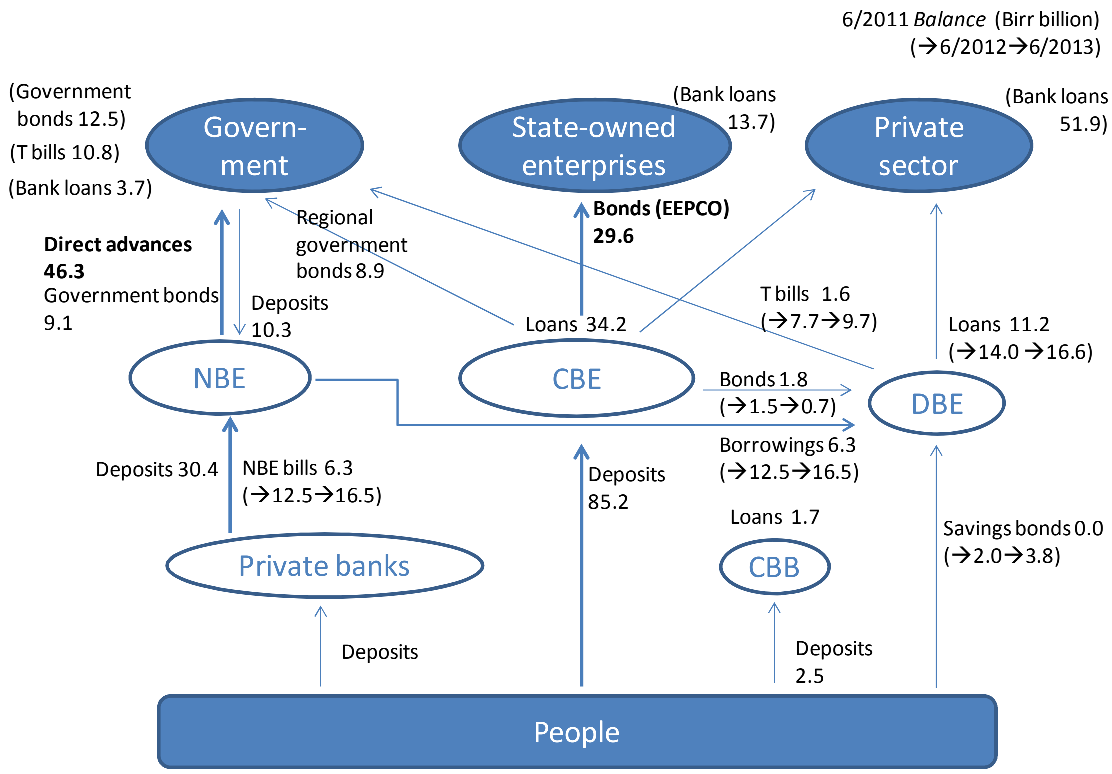
Source: NBE Annual Report, Statistical Bulletin.

1-13. Banking sector

Ethiopia's banking sector lends not only to the private sector but also to the public sector (state-owned enterprises[2] and government deficit financing). The chart below is a snapshot of the major money flow as of June 2011.

[2] According to the World Bank, public enterprises that the Ethiopian Government considers strategic include the Ethiopian Airlines, Ethiopian Shipping Lines, Ethio Telecom, EEPCO, Metals and Engineering Corporation, CBE, DBE, and CBB.

Chart 1-1 Major financing sources for public and private sectors



Source: Compiled from NBE Annual Report and interview information.

NBE plays a pivotal role in financing the government deficit. It absorbs private banks' money through deposits and NBE bills (to be discussed later), and provides the government with direct advances. NBE also assumes government bonds and accepts government deposits.

CBE is rapidly expanding its branch network and is absorbing people's savings. It finances state-owned enterprises through purchasing bonds and providing loans, as well as providing commercial banking services.

DBE's main source of financing is the borrowing from NBE, and the original source is the NBE bills. As a state-owned bank, DBE started to issue savings bonds with 5-year maturities, and the balance has increased to be more than birr 3 billion in 2013. DBE started to buy the treasury bills, and the initial amount was small, but now more than half of the money from NBE bills is used to finance the government through treasury bills.

As a result, the government is provided with funds through government bonds, treasury bills and bank loans by the financial sector. State-owned enterprises are financed through bonds and bank loans. Private sector is provided with bank loans of birr 51.9 billion, but the amount is limited as compared to the public sector.

By type of borrowers, bank loans are increasing for 'state-owned enterprises' and 'private & individuals'.

Table 1-22 Bank loans by borrowers

	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	9/12	
Central government	13.8	7.3	12.9	13.2	6.9	5.6	7.6	3.7	4.6	8.7	birr billion
State-owned enterprises	2.2	3.2	3.0	3.3	8.7	8.2	8.4	13.7	27.7	31.0	
Cooperatives	0.5	1.1	1.8	2.0	3.2	3.4	5.1	8.4	13.7	11.1	
Private & individuals	14.6	17.2	21.6	25.5	29.3	34.0	40.9	51.9	68.5	68.2	
Interbank lending	0.4	0.3	0.3	0.2	0.2	0.4	0.3	0.1	0.3	0.2	
Total	31.6	29.0	39.6	44.2	48.2	51.6	62.3	77.7	114.7	119.3	

Source: NBE Annual Report, Statistical Bulletin.

By sectors, bank loans to 'manufacturing', 'international trade', and 'agriculture' are increasing.

Table 1-23 Bank loans by sectors

	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	9/12	
Government	13.8	7.3	12.9	13.2	6.9	5.6	7.6	3.7	4.5	8.7	birr billion
Agriculture	1.2	2.0	3.4	4.2	5.5	6.0	6.8	10.6	17.2	16.2	
Manufacturing	4.2	5.1	6.3	7.0	7.9	9.1	12.2	20.7	33.6	35.2	
Domestic trade	2.2	2.7	3.3	3.8	5.2	5.8	6.2	7.3	12.1	12.2	
International trade	3.4	4.6	5.3	6.5	12.2	12.5	14.4	18.0	25.0	23.4	
Hotels, tourism	0.3	0.3	0.3	0.7	0.7	1.0	1.3	1.4	1.7	2.0	
Transport, communication	0.8	0.9	1.6	2.4	2.8	2.5	2.8	3.6	4.4	4.6	
Housing, construction	2.0	2.2	3.2	3.8	4.9	6.7	8.2	9.0	12.4	13.0	
Power, water, mines	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Others	3.2	3.4	2.8	2.3	1.8	1.8	2.2	3.1	3.2	3.4	
Personal	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.4	0.5	
Interbank lending	0.4	0.3	0.3	0.2	0.2	0.4	0.3	0.0	0.0	0.2	
Total	31.6	29.1	39.6	44.3	48.2	51.6	62.3	77.7	114.7	119.3	

Source: NBE Annual Report, Statistical Bulletin.

Though new private banks have been established, CBE maintains the dominant position, holding a larger portion than the summation of all the private banks.

Table 1-24 Banks' loans outstanding

	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	
CBE	21.0	16.4	21.9	22.8	23.9	24.8	22.9	34.2	birr billion
DBE	3.5	4.1	5.5	5.9	6.6	7.7	8.8	12.0	
CBB	0.7	0.9	1.1	1.2	1.2	1.4	1.7	1.7	
Dashen	2.0	2.2	3.2	4.0	4.4	4.4	5.0	6.1	
Awash International	1.3	1.5	2.1	2.5	2.9	2.7	3.2	4.0	
Abyssinia	1.1	1.2	1.9	2.5	2.8	2.7	3.2	3.3	
United	0.4	0.5	0.9	1.2	1.5	2.2	2.5	3.3	
Wegagen	0.7	1.0	1.6	2.2	2.3	2.1	2.5	2.9	
Nib International	0.9	1.1	1.5	1.8	2.1	2.2	2.5	2.8	
Cooperative Oromia			0.1	0.2	0.3	0.6	0.7	0.8	
Lion International				0.1	0.2	0.5	0.6	0.7	
Oromia International						0.1	0.4	0.6	
Zemen						0.2	0.4	0.7	
Berhan International							0.2	0.3	
Bunna International							0.2	0.4	
Abay								0.2	
Total	31.6	29.0	39.6	44.3	48.2	51.6	54.7	74.0	

Source: NBE Annual Report.

Banks mobilize funds mostly through deposits, as borrowings remain limited. There is no foreign bank yet, and the banking sector's resource mobilization is almost limited to domestic sources.

Table 1-25 Banks' resource mobilization (balance)

	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	9/12	
Deposits	**32.7**	**37.4**	**44.5**	**53.9**	**63.0**	**78.2**	**98.6**	**140.5**	**187.3**	**190.9**	birr billion
Demand	16.4	17.8	21.3	26.3	29.7	37.3	46.1	70.8	92.3	90.8	
Savings, time	16.3	19.6	23.2	27.6	33.3	40.9	52.5	69.7	95.0	100.1	
Borrowings	**4.3**	**1.8**	**2.0**	**4.3**	**4.3**	**3.0**	**5.6**	**9.7**	**16.9**	**18.5**	
Domestic	4.0	1.5	1.7	3.9	3.8	2.4	4.6	8.7	15.9	17.3	
Foreign	0.3	0.3	0.3	0.4	0.5	0.6	1.0	1.0	1.0	1.2	

Source: NBE Annual Report, Statistical Bulletin.

In response to the financial needs, banks have rapidly increased their branches and have absorbed people's savings. There are some newly-established private banks, but CBE's branch network is overwhelming.

Table 1-26 Banks' branch network

	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	9/12	
CBE	138	174	177	196	205	209	209	417	559	592	branches
CBB	15	26	27	27	27	32	32	34	84	87	
DBE	31	32	32	32	32	32	32	32	32	32	
Dashen	15	33	37	42	48	54	59	65	75	86	
Awash Int'l	14	33	36	43	53	60	62	70	86	87	
Abyssinia	10	22	26	28	42	47	47	57	61	64	
United	4	17	22	27	36	41	42	50	69	69	
Wegagen	19	29	33	39	40	49	50	53	60	63	
Nib Int'l	3	17	20	25	42	45	48	51	58	64	
Cooperative Oromia	6	6	11	16	20	26	37	43	51	59	
Lion International				12	17	20	22	30	36	39	
Oromia Int'l						20	27	36	41	48	
Zemen						1	3	3	7	7	
Berhan Int'l							8	10	15	17	
Bunna Int'l							3	11	25	26	
Abay								8	25	27	
Addis Int'l									5	7	
Debub Global										2	
Total	255	389	421	487	562	636	681	970	1,289	1,376	

Source: NBE Annual Report, Statistical Bulletin.

1-14. Technical cooperation for the financial sector

Regarding the technical cooperation for financial sector, capacity building is conducted by the World Bank (once for NBE), and credit guarantee schemes are supported by the US and Germany. Credit guarantee is provided (1) by USAID to the Awash International Bank, the Dashen Bank, and the Bank of Abyssinia, and (2) by the KfW to the Wegagen Bank and the Oromia International Bank (e.g. to facilitate microfinance disbursements by complementing micro-enterprises' credibility). (Training issues will be further discussed later.)

1-15. Issues on development finance

Banks usually limit infrastructure lending to *bankable* (feasible/profitable) projects such as electricity and telecommunications from a managerial point of view. The management of roads usually does not generate revenues, and the infrastructure development of roads is generally financed by fiscal budget and foreign aids (toll roads are few here and in fact, often have problems with toll collection). Water-supply management is sometimes handled by public-private partnership (PPP) scheme in developed countries, but PPP is not mature in Ethiopia.

According to NBE Annual Report, the credit balance of the country's banking sector for 2010/2011 is birr 77.7 billion, which accounts for less than 20% of GDP. Of which the public sector borrows about a quarter (state-owned companies, birr 13.7 billion; central government, birr 3.7 billion), while the private sector borrows birr 51.9 billion. It seems the private sector does not receive sufficient finance.

The government set a lending cap on banks in 2009 to control inflation. However, this measure was abolished in 2011 because of the stagnant circulation of funds.

In April 2011, the government set a directive to have private banks buy the NBE Bills equivalent to 27% of new disbursements in order to mobilize domestic funds. These bills bear a 3% interest rate with 5-year maturity. The IMF staff in Washington DC criticizes such action as it distorts the market mechanism. However, the IMF Executive Director Moeketsi Majoro (in charge of Ethiopia, etc.) stated, "the introduction of the NBE Bills is helping in shifting the credit portfolio from short-term loans to medium- and long-term loans" on behalf of Ethiopia's authorities. (IMF, Country Report: Ethiopia, 2012)

For example, in Japan, private banks used to arrange syndicate loans in cooperation with the Industrial Bank of Japan and Long-Term Credit Bank of Japan, which lent long-term loans while having purchased bonds issued by said banks. It is otherwise difficult to increase long-term lending, as private banks tend to lend for the short-term. Moreover, the NBE Bills come to be one of the DBE's funding sources. Thus, the issue seems to be "how to direct long-term funds to long-term lending."

1-16. Issues on private sector development

Sustainable development requires both infrastructure development and private sector development. Ethiopia's private sector should be nourished to boost job opportunities to reduce poverty, thus achieving sustainability of the country.

However, private companies' productivity is not always high, and the industrial agglomeration is not really dense. Technology and marketing know-how are not necessarily sufficient, and product quality could stand to be further enhanced.

Japan may be able to support Ethiopia in this regard. Japan International Cooperation Agency (JICA) has assisted local firms' *kaizen* (continuous improvement) activities and achieved some results. If Japanese firms invest in Ethiopia, for instance in special economic zones, Ethiopian firms may be able to enjoy technology spillover and other merits. However, there are many obstacles before Japanese firms can come to Ethiopia and actually start businesses.

One of the banks' roles is to support the business startups, capital investment and working capital for private companies. However, most of the money goes to infrastructure development, and the private sector does not always receive sufficient funds.

Difficulty in fund and land procurement seems to restrain private capital investments. The "Doing Business" survey by the World Bank does not highly evaluate Ethiopia's fund access, investor protection, cross-border transactions, and property registration. Ethiopia is ranked low in terms of "financial development" in the World Economic Forum's Global Competitiveness Report. According to the World Bank's Ethiopia Economic Update, the Company Survey in Addis Ababa (2010) identifies the bank lending as the most serious complaint. According to the IMF's Financial Survey, the number of bank branches and ATMs are limited and customers feel inconvenience.

It is said some banks require collateral of more than 200% for loans, though the land belongs to the country and collateral-setting is quite restricted.

Individuals have to depend on their own, or their family's money and/or suppliers' credits in order to startup businesses, because banks do not function efficiently. If entrepreneurs' relatives are rich, they can start up; otherwise, they have to give up. Thus, the private sector should be provided ample funds.

Other African countries have access to syndicate loans and domestic/overseas funds that are arranged by foreign banks (e.g. of South Africa). However, such financial intermediation cannot be expected in Ethiopia where there are no foreign banks. Thus, state-owned banks come to be critical.

The Commercial Bank of Ethiopia (CBE) is predominantly large and is expanding operations through financing GTP projects. In contrast, the Construction and Business Bank (CBB) is relatively small and is engaged in developing houses and financing businesses. The Development Bank of Ethiopia (DBE) is financing private projects in the government's priority sectors (to be discussed later).

1-17. Economic risks

IMF points out the following risks.

Table 1-27 Possible economic risks

Risk sources	Likelihood	Impact if realized
Commodity price increases	Medium	Import price increase outweighs export price increase
Euro area crisis	Medium	Decrease in aid flows, remittances, and demand for Ethiopia's exports
Global economic slowdown	Medium	Commodity export price decrease
China's sharp slowdown	Low	Decreased FDI and infrastructure financing
Lack of sufficient financing for GTP	Medium	Lower growth
Strain on CBE due to increased GTP financing	Medium	Economic slowdown

Source: IMF, Country Report: Ethiopia, 2012.

In addition, regarding the Grand Renaissance Dam construction, Egypt is insisting on water right claims regarding the Nile River. The consequences should be observed.

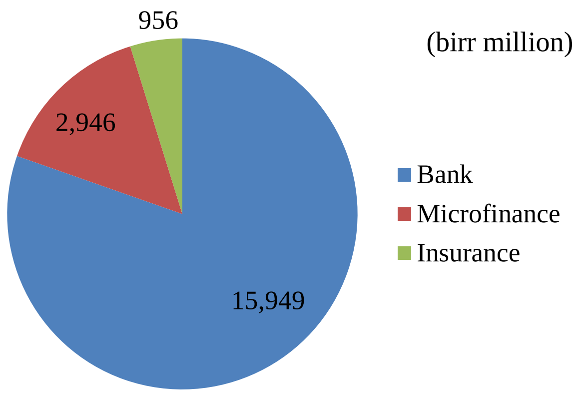
Picture: DBE Headquarters

Chapter 2 Development finance in the context of Ethiopian financial sector

2-1. Overview of finance industry in Ethiopia

Ethiopian finance industry is dominated by banks. While direct comparison is difficult, below is the share distribution of banks, insurance companies and micro-finance institutions in the country. Total capital of the banks takes an 80% share, followed by micro-finance institutions with a 15% share and insurance companies with 5%.

Chart 2-1 Financial institutions' capital as of June 30, 2011



Source: NBE Annual Report 2010/11.

2-1-1. Banks

Within the banking industry, the Commercial Bank of Ethiopia (CBE), one of the two government-owned commercial banks, is by far the largest, in terms of both the number of branches and the size of the capital. As of June 30, 2011, the CBE had 417 branches and total capital of birr 6,262 million, equal to 43% of all bank branches and 39% of all the banks' capital. As for the loan outstanding, the CBE's share was even larger at 46%.

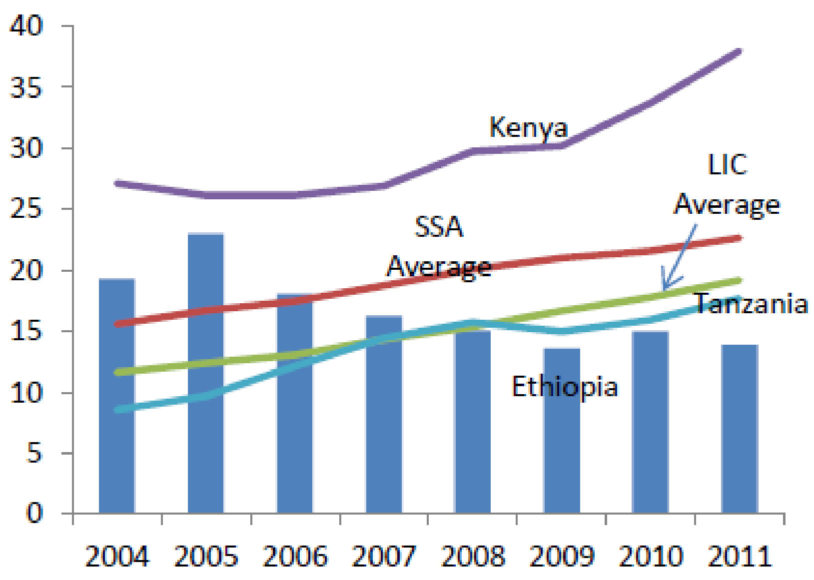
The CBE not only is the biggest bank but also has a special role of providing funds to public enterprises and major private projects in the priority areas designated by the government. One senior CBE banker said that, as a government-owned bank, the CBE had two objectives: maximizing profit and contributing to the development of the Ethiopian economy. Together with the DBE, which has the second largest outstanding loan share, 16%, the government can influence more than 60% of the lending in Ethiopia.

On the other hand, senior managers at government-owned the Construction and Business Bank (CBB) mentioned that it no longer plays any policy role and just functions as a commercial bank, although it used to be regarded as the governmental bank for financing major housing and construction projects in Ethiopia. It is perhaps because of its small size.

Both the World Bank and the IMF are concerned about the dominance of government-owned banks in Ethiopia, especially the CBE and DBE, because it undermines private banks' intermediation activities. According to Ethiopian Economic Update II, issued by the World Bank in June 2013, credit to the private sector in Ethiopia was only 14% of GDP, compared to the regional average of 23%. Moreover, while the worldwide trend has been an increase in private sector credit, Ethiopia has experienced a decline of about 5 percentage points since 2004.

Chart 2-2 Private sector credit

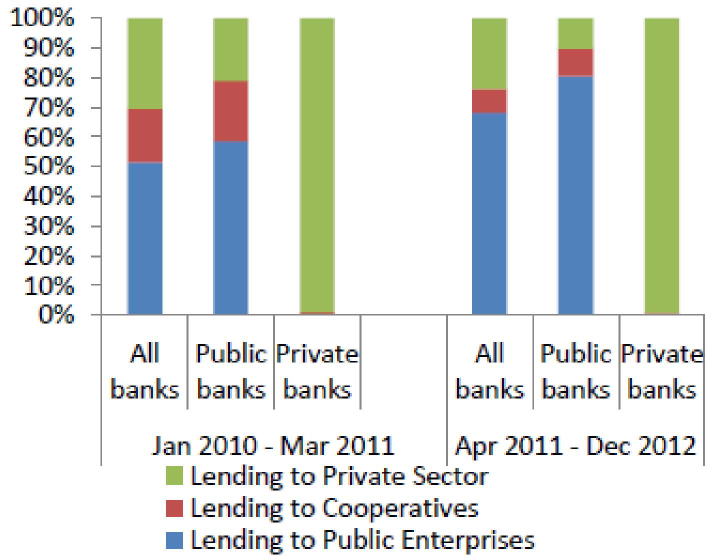
(% of GDP)



Source: World Bank, Ethiopian Economic Update II.

The World Bank's observation on the relationship between the dominance of the CBE and the low level of credit to private sectors is valid. As mentioned above, the CBE is tasked with providing funding to the public sector by lending to and purchasing bonds issued by public enterprises. As the investment needs of such public enterprises increase for big projects like Grand Renaissance Dam, the CBE's lending to the private sector is inevitably decreasing.

Chart 2-3 Change in credit provision to each sector

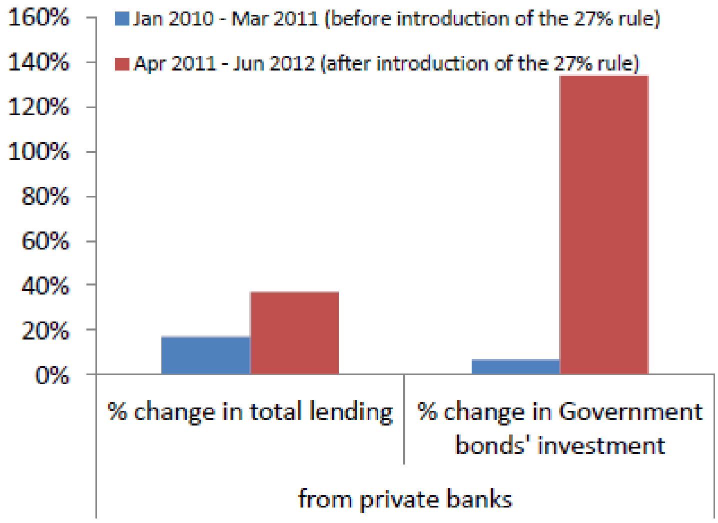


Source: World Bank, Ethiopian Economic Update II.

Also, the World Bank report points out that a directive issued in April 2011, which requires private banks to purchase NBE bills equivalent to 27% of new loan disbursements, may further impair the banks' intermediary functions. The proceeds of NBE bills are used for the DBE's long-term financing of private projects in the priority sectors and, if the amount collected from private banks exceed the financing needs of the DBE, the leftover goes to the government in the form of Treasury bills. Moreover, the DBE started mobilizing individuals' savings directly by selling tax-exempt savings bonds two years ago and the bonds directly compete with bank deposits.

During our interview with the World Bank Ethiopian office, the lead economist pointed out that the Ethiopian government must consider the cost of channeling funds to the priority sectors through the DBE because other private sectors, including SMEs, are deprived of their chances for receiving credits. As the chart below shows, private banks' loan growth was much lower than the government bond holding in the recent fiscal year.

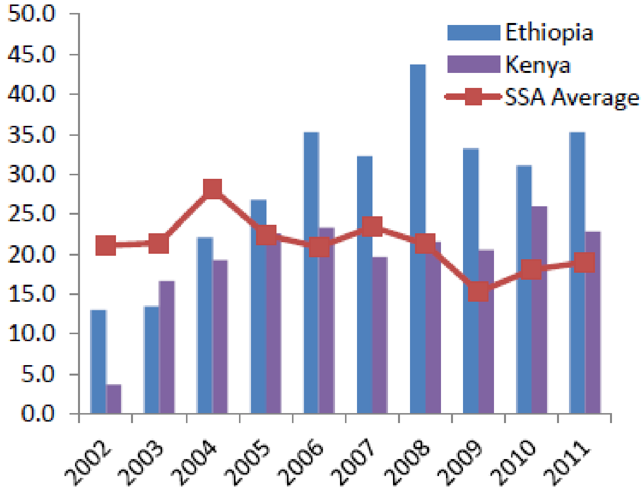
Chart 2-4 Change in loan and government bond investments from private banks



Source: World Bank, Ethiopian Economic Update II.

Since the availability of credit is low, excess demand leads to high profitability for the banks. According to interviews with multiple banks, bank deposit rates are the same as the minimum deposit rate set by the central bank, which is 4.5% p.a. as of June 2013, and the lending rate is also not very different between banks. For example, the CBE charges 9.5% p.a. for their lending, regardless of the tenor, while the CBB charges the same rate for loans with tenors up to five years and 10.75% for longer tenors. This suggests that banks are enjoying gross-interest margins of more than 5%. The high profitability is considered to be derived not only by high demand but also by tight regulation of the banking industry. The World Bank report also points out that Ethiopian banks' profitability is higher than the regional average.

Chart 2-5 ROE for banks in Ethiopia and Kenya

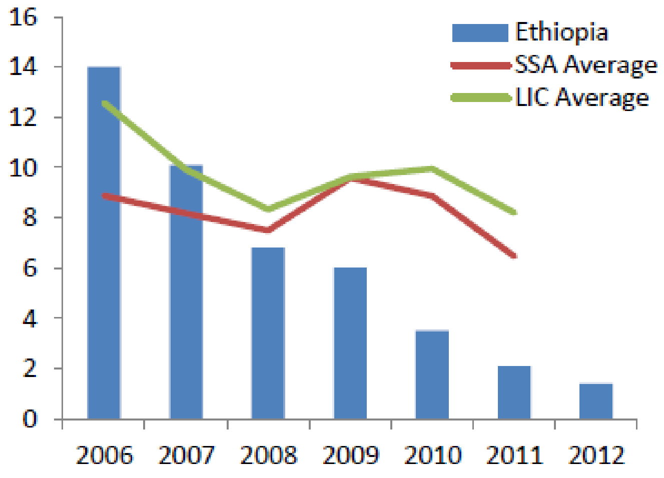


Source: World Bank, Ethiopian Economic Update II.

Given the dominant positions over clients, Ethiopian banks do not have to lend to risky companies and prefer to lend for the short term because they can earn enough without taking the additional risk of long-term loans. Collateral is usually required in the form of buildings and motor vehicles, while some blue-chip companies can borrow unsecured, according to a senior manager at the CBE. However, a senior CBB manager said that the CBB always requires collateral because its clients are all SMEs and individuals. According to the central bank, the National Bank of Ethiopia, non-performing loans (NPLs) had become minimal for Ethiopian banks.

Chart 2-6 Non-performing loans to the total loan outstanding

(%)



Source: World Bank, Ethiopian Economic Update II.

2-1-2. Micro-finance institutions (MFIs)

Micro-finance institutions were formally established in 1996 and succeeded in reaching nearly 500,000 clients and delivered an estimated birr 526 million (USD 64.5 million) in loans by 1999. By 2007, outreach topped 1.4 million, marking growth of nearly 150% in less than a decade (http://www.grameenfoundation.org/sub-saharan-africa/ ethiopia).

Micro-finance institutions are providing not only the precious funds for economic activities but also interest-earning opportunities for people who previously could not have savings deposits due to a lack of bank branches. In addition to its deposit-taking business, the DBE is planning to sell savings bonds to rural people through micro-finance institutions.

According to the NBE, there were 31 micro-finance institutions with total credit of birr 7 billion as of June 30, 2011. The total credit of micro-finance institution is 9.4% of outstanding bank loans.

Table 2-1 Assets and liabilities of micro-finance institutions (June 30)

(birr thousand)

Micro-Financing Institutions	2008/09	2009/2010	2010/2011	% Change
	A	*B*	*C*	*C/B*100*
Total Capital	1,737,402.7	2,375,228.0	2,945,970.0	24
Saving	2,098,742.1	2,658,962.0	3,779,089.0	42
Credit	4,936,135.2	5,824,489.0	6,991,986.0	20
Total Assets	6,620,630.8	7,958,194.0	10,156,387.0	27.6

Source: NBE Annual Report 2010/11.

As can be seen above, the total amount of saving is about 54% of the total credit. Therefore, micro-finance institutions need to borrow from outside, namely from the DBE, multilateral organizations, bilateral donors or NGOs.

The table below shows the loan and credit amounts and numbers of borrowers as of March 31, 2012, for major MFIs. Amhara Credit and Saving Institution (ACSI) is the largest, followed by Dedebit Credit and Savings Institution (DECSI) and Oromia Credit and Saving Share Company (OCSSCO). All three are on the largest borrowers list of the DBE, occupying the 10^{th}, 13^{th} and 15^{th} places. The deposit to loan ratio varies from one MFI to another but ACSI, again, shows the highest ratio.

Table 2-2 Loan, deposit and number of borrowers at major MFIs

(March 2012)

(USD)

MFI name	Gross Loan	Deposits	Deposit / Loan	# of Borrowers	Average Loan Amount
ACSI	122,076,945	93,932,950	77%	629,518	194
DECSI	107,013,284	63,122,052	59%	356,372	300
OCSSCO	78,886,665	37,571,741	48%	521,252	151
ADCSI	34,945,658	15,112,996	43%	178,247	196
Buusaa Gonofaa	5,507,715	1,017,620	18%	55,240	100
Benishangul	2,976,543	1,192,302	40%	28,874	103
PEACE	2,697,163	833,955	31%	17,576	153
Sidama	2,670,303	1,369,766	51%	47,810	56
Aggar	1,858,445	1,274,166	69%	7,895	235
Metemamen	679,218	215,152	32%	11,694	58
Meklit	125,662	16,004	13%	2,584	49
Total	359,437,601	215,658,704		1,857,062	

Source: mixmarket.org.

2-1-3. Insurance companies

Ethiopia's insurance industry is very small. According to NBE statistics, there are a total of 14 insurance companies, with a total network of only 221 branches, which is equivalent to 23% of all bank branches. Since each company is small in size and discloses very little about their operations, it is difficult to get a good understanding of the insurance businesses. However, according to media coverage and to interviews of commercial banks, insurance companies depend on corporate clients (purchasing motor vehicle, fire and other asset-related insurance for their business—often, for example, in aviation and engineering—, and staff-related insurance, such as accident, health and workmen's compensation. Many insurance companies are affiliated with banks and derive their corporate business from referrals from the banks.

Life insurance is still not common in Ethiopia, like in other low-income countries. However, an increase is expected because the government is to require that all vehicle owners carry life and liability insurances, according to a senior bank manager that we interviewed.

Table 2-3 Insurance companies in Ethiopia

(June 2011)

Company Name	Branches	Capital (birr million)
Ethiopian Ins. Cor.	41	291.0
Awash Ins. Com. S.C.	29	89.0
Africa Ins.Com S.C.	13	81.0
National Ins. Co. of Eth.	16	27.9
United Ins.Com. S.C.	23	88.0
Global Ins. Com. S.C.	10	27.8
Nile Ins.Com. S.C.	21	100.3
Nyala Ins.Com. S.C.	16	96.3
Nib Ins. Com. S.C.	22	87.4
Lion Ins. Com. S.C.	11	17.3
Ethio-Life Ins. Com. S.C.		4.9
Oromia Ins. Com. S.C.	16	23.9
Abay Insurance Company S.C.	3	11.4
Berhan Insurance S.C.		9.4
Total	221	955.6

Source: NBE Annual Report 2010-2011.

Because of the lack of capital markets, insurance companies are parking their funds at commercial banks. In order to avoid deposit concentration at a certain bank, insurance companies are required to diversify their deposits.

2-1-4. Corporate bonds

As for corporate bonds, a market does not exist in Ethiopia. While corporate bonds exist, they are just instruments to transfer funds between public enterprises. Issuers are limited to public entities, such as the Ethiopian Electric Power Corporation (EEPCO), DBE and regional governments, and purchases are by government-owned CBE. In other words, the CBE is tasked to mobilize funds from the public in the form of deposits and channel them to public entities. The DBE started functioning similarly two years ago, when it started issuing savings bonds to individuals, which will be discussed later in Chapter 3.

Table 2-4 Outstanding corporate bonds in Ethiopian banking sector

Particulars	Annual 2009/10 A.	Annual 2010/11 B	Percentage Change A/B
1. Corporate Bond Purchases by holders	**10,860.0**	**18,157.0**	**67.2**
EEPCO	5,000.0	13,000.0	160.0
Regional governments	3,560.0	3,007.0	-15.5
Development Bank of Ethiopia	2,300.0	2,150.0	-6.5
Private Sector			
2. Redemption of Bonds by Clients	**1,235.7**	**5,611.7**	**354.1**
EEPCO	0.0	0.0	-
Regional governments	1,116.4	1,167.1	4.5
Development Bank of Ethiopia	119.3	4,444.6	3,626.1
Private Sector			
3. Outstanding Bonds by Clients	**27,727.3**	**40,258.3**	**45.2**
EEPCO	16,600.0	29,600.0	78.3
Regional governments	7,032.7	8,858.3	26.0
Development Bank of Ethiopia	4,094.6	1,800.0	-56.0
Private Sector			

Source: Annual Report of NBE 2010-2011.

2-1-5. Equity finance

There is no stock exchange in Ethiopia but public companies can raise funds by offering new shares to the public. Newly issued shares are advertised in newspapers or Social Networking Services, which interested investors can subscribe to. However, the amount of funds raised is considered to be limited, although no statistics are available.

2-2. Role of the development finance institution

During our field study, we could not find any systematic policies, administrative guidelines or even government offices that specifically supervise development finance institutions. On the other hand, the DBE has its own strategic planning section and it defines the role that it plays in the large context of economic development strategies of the country. Therefore, we concluded that the DBE is synonymous to development finance in Ethiopia and the DBE's strategy and practice form all the elements of developmental finance in Ethiopia

2-2-1. Purpose of development financial institution

The DBE explored the role of development banks in the Balanced Scorecard 2010, a comprehensive review of the mission and performance. Below are quotes from the section titled "2.2 Nature of Development Banking Institutions".

"…, one of the most pressing problems of developing countries has always been that financial resources and investments seldom flow to where they are most needed. In other words, market-led resource allocation in underdeveloped economies is often highly distorted, inefficient and unfavorable to economic growth.… Market failure has thus become one of the main bases for government intervention in developing economies…."

"This reasoning is further reinforced by the rudimentary stage of development and risk-averse nature of the private sector that forces the profit-oriented private sector to focus on short-term goals (i.e. short-term credit and not medium- and long-term or investment credit)."

"An additional factor that promotes this line of thought and argues for government intervention to improve resource allocation is the lack of capital markets in such economies…."

"It is such shortcomings and dilemmas of developing economies, therefore, that call for government intervention so as to arrange for an alternative source of medium- and long-term credit for strategic projects of national interest through the establishment of specialized financial institutions called development banks. This, in essence, is the justification for the establishment of development banks in general and the Development Bank of Ethiopia specifically."

"The other unique objective of such banks is technical support and advice. The need for such packaged service from development banks is mainly justified by the elemental development of entrepreneurship and project management capacity in such economies."

In short, the DBE considers that the financial markets are not functioning perfectly in Ethiopia to deliver the credit to the areas that are crucial for economic development. Therefore, the government must intervene in the market and artificially direct the credit to the priority sectors designated by the government.

In order to justify the market intervention through the developmental financial institution, there first must be governmental industrial policy that designates the priority areas to which the credit should be directed. While there has been a heated debate over the effectiveness of industrial policy, the Government of Ethiopia has viewed it favorably and the Government of Japan has been supporting it on this issue by means of Japan–Ethiopia industrial policy dialogue since July 2008.

There exist critical views against the proactive involvement of the government in economic activities, because of a risk of rent-seeking, political capture and policy mistakes. On the other hand, Mr. Kenichi Ohno, a professor at the National Graduate Institute for Policy Studies (GRIPS) and a leader of the policy dialogue between Ethiopia and Japan, maintains that "East Asia widely accepts and practices industrial policy. Latecomers can—and should—learn from more advanced neighbors."[3] Professor Ono has maintained the abovementioned view and recently reiterated it at an Ethiopia business and investment seminar held in Tokyo on June 3, 2013.

Professor Ono introduced the following "Standard Menu for Latecomers" In his presentation "Industrial Policy in Africa: What Africa Can Learn from East Asia". The list includes "developmental financial institutions" in main objective (3) Finance.

[3] Kenichi Ono, "Industrial Policy in Africa: What Africa Can Learn from East Asia," February 2011.

Table 2-5 Enhancing industrial human and enterprise capability: standard menu for latecomers

Main objectives	Sub items
(1) Legal and policy frameworks	Laws and regulations
	Ministries/agencies for promoting SMEs, FDI, etc. with sufficient capability and authority
	Inter-ministerial coordination mechanisms
	Effective public private partnership (PPP)
	Mechanism for business-government-academia linkage
	Policy system consisting of visions, roadmaps, action plans, and monitoring
	Standards for quality, safety, skills, environment, etc.
	Mechanisms for protecting and utilizing Intellectual property rights
	Strengthening of industrial statistics
	Strategic mobilization of international cooperation
(2) Local capacity building (industrial human resource and local enterprises)	Universities of technology and engineering, industrial colleges
	Short-term courses for enterpreneurs
	Technical support on specialized skills for engineers
	Technical and vocational training for new or current workers
	Skill certification, competition, and awards
	Subsidies and incentives for targeted activities (worker training, technology transfer, die and mold, marketing, ITC, etc)
	Management or technical advisory service (by visiting consultants, short-term)
	Enterprise evaluation and advice system (institutionalized shindan system or technical extension services) - also related to SME finance
	Local enterprise networks
(3) Finance	Development financial institutions
	Subsidized commercial bank loans for targeted firms (two-step loans)
	Credit guarantee system
	Equipment leasing
	Venture capital
	Enterprise credit information system
	Enterprise evaluation and advice system (same as in (2))
(4) FDI marketing	List of priority products and activities and a system of investment incentives
	Investment promotion seminars and missions
	Effective investor information package and website
	Investment promotion offices abroad
	One-stop services and enteprise support (before and after investment)
	Upgrading infrastructure service quality (power, transport, water, etc)
	Environmental control and facilities (incl. waste water treatment)
	Industrial estates with sufficient infrastructure services and administrative services (incl. specialized industrial parks)
	Labor support (training, recruiting & matching, housing/domitories, commuting, health care, etc.)
	Prioritized and targeted FDI marketing
	Inviting individual target company ("anchor firm") and provision of required conditions
(5) Linkage (learning by working with global standard firms; market development)	Trade fairs and reverse trade fairs
	Enterprise databases (SMEs, supporting industries, sectoral)
	Official intermediation/promotion of subcontracting
	Incentives/subsidies for FDI-local firm linkage
	Domestic and export market development support
	Establishment and enhancement of industry associations

Source: Kenichi Ono, "Industrial Policy in Africa: What Africa Can Learn from East Asia", February 2011.

A senior manager at the CBE echoes the need for a developmental financial institution by describing the role of the DBE as “a pace setter” for commercial banks. He mentioned that the DBE had been acting as a pioneering lender to new industry and opened various paths for commercial banks to follow. As an example of such, he pointed out commercial farming, which is one of the priority sectors that commercial banks had previously never financed. The DBE first ventured into the area and opened a way for commercial farmers to borrow from commercial banks.

2-2-2. Difference between DBE and commercial banks

There are largely two differences between the DBE and commercial banks in Ethiopia, one is the industry concentration and the other is the loan tenors. The DBE’s loan portfolio is concentrated on a handful of priority industries and the loan tenor is longer.

The loan portfolio of the DBE is highly concentrated in a handful of industries because it only lends to areas prioritized by the government. The table below compares the industry-wide distributions of loan outstanding between the DBE and all Ethiopian banks.

Table 2-6 Sector distribution of loans outstanding as of June 30, 2011

(birr million)

Economic Sectors	DBE	All Banks	Composition	
Agriculture	2,263	10,575	19%	14%
Industry	8,166	20,650	68%	27%
Others	1,551	46,461	13%	60%
Government		3,719		5%
Domestic Trade		7,261		9%
Export		7,222		9%
Import		10,802		14%
Hotels and Tourism		1,435		2%
Transport/Communications		3,558		5%
House/Construction		9,023		12%
Mines/Power/Water		37		0%
Others		3,076		4%
Personal		315		0%
Interbank		13		0%
Total	11,980	77,686	100%	100%

Source: DBE Annual Report 2010-2011, NBE Annual Report 2010-2011.

As for the tenor, DBE loans are much longer because it specializes in long-term investment credits, while commercial banks provide both working capital and investment credits. The table below shows the term distribution of the loan portfolio for the DBE and CBE. The CBE was chosen for comparison purposes because it discloses the loan tenor in its annual reports and it is the largest bank in Ethiopia, accounting for half of the country's loan outstanding. As you can see, shorter-term lending is dominant for the CBE, while almost half of the DBE's loans have tenors of five or more years remaining.

Table 2-7 Tenor Composition of DBE and CBE Loan Portfolios

(birr million)

	DBE	CBE	DBE	CBE
as of	Mar-13	Jun-11	Composition	
1 year or less	2,009	16,428	13%	50%
5 years or less	6,012	7,040	40%	21%
Over 5 years	7,155	9,623	47%	29%
Total	15,176	33,091		

Source: DBE Liquidity Gap Analysis Report April 2013,
NBR Annual Report 2010-2011.

Even within the “over 5 years” category, the DBE loans tend to be longer, as the DBE’s limit on the tenor is 20 years and the CBE’s is 15 years.

2-2-3. Views from the beneficiaries of developmental loans

We could interview three DBE clients on their relationship with the DBE. The two subsidiaries of Turkish companies and one local manufacturer all spoke favorably about the role of the DBE.

(a) Ayka Addis Textile and Investment

Ayka Addis Textile and Investment is the largest integrated textile manufacturer in Ethiopia. It purchases 80% of its cotton from local farmers and processes it into final products, such as jackets, shirts and sheets for Europe. The company currently employs 7,000 people, including 170 foreign expatriates.

The company received an investment loan upon establishment in 2006 for 70% of total project costs and an additional loan in 2011 for 60% of expansion costs. The DBE is also providing trade finance services, and the company said that it has no other banking relationship in Ethiopia. The company described the DBE as “a sister company.”

The parent company decided to invest in Ethiopia for two reasons, attractive incentives offered by the Government of Ethiopia, and the security reason. Investment incentives include DBE finance, tax breaks and inexpensive land-use rights. ”Security” refers to stable government and lack of religious conflict.

Source: http://www.business-network.tv/asia-business-channel/ayka-addis.

(b) Saygin-BM Cable Production

Saygin-BM Cable Production is constructing Ethiopia's largest factory for manufacturing communications and power cable. The project sponsor has been exporting wire from its factory in Turkey since 1990 but decided to move all the production facilities to Ethiopia. Once completed, the company will employ 551 people, including 62 foreign expatriates, and export 55% of its products globally.

The company received an investment loan from the DBE and has welcomed various kinds of support from the DBE throughout the construction phases. The parent company decided to invest in Ethiopia due to the political stability, inexpensive electricity and attractive incentives offered by the Government of Ethiopia, including investment financing via the DBE.

Photograph taken by the study team during the field study, June 2013

(c) OK Jamaica Shoe Factory

OK Jamaica Shoe Factory is a local company that purchases leather from the local tannery and processes it into various kinds of apparel: shoes, dresses, sneakers, soccer spikes and so on. The company exports mainly to Kenya but also manufactures shoes for a Japanese company, Hiroki.

The company first started business with an investment and working capital loan from the CBE but experienced a shortage of working capital. According to the credit officer at the DBE, the CBE did not provide sufficient working capital loans because the company lacked sufficient collateral. Since the DBE can lend only based on the value of the project and it highly valued the factory, it decided to purchase all of the company's outstanding loans from the CBE and extend a new working capital loan.

The managing director of the company was grateful to the DBE and is eagerly trying to use the new loan to penetrate new markets in Africa, such as South Africa, Liberia, Ghana and the UAE.

Photographs taken by the study team during the field study, June 2013

2-3. Risk associated with developmental finance in Ethiopia

2-3-1. Difficulty in appraising the projects in industries new to Ethiopia

When asked about the DBE's challenges, its officers almost unanimously point out the difficulty of screening and appraising the projects that are totally new to Ethiopia, because the industry knowledge needed for such analysis does not exist at the DBE or anywhere in the country.

As mentioned in 2-2-2, the DBE was established to overcome the problem of the "risk-averse nature of the private sector." The DBE's main task is to take on the new kinds of projects that are too risky for commercial banks to finance. To fulfill this aim, the DBE is taking various measures, including entering into information-sharing agreements with other developmental financial institutions and engaging in intensive industrial research, tapping the expertise of borrowers' engineers and dispatching in-house engineers overseas to gain first-hand exposure.

DBE officers are trying hard, but the non-performing ratio is significantly higher than the national average, although it has been improving since three years ago when business process re-engineering was started. An officer in charge of loan rehabilitation acknowledged that there was a lack of industrial knowledge when they appraised the projects, resulting in the following problems.

a) Some projects could not compete with foreign rivals

b) Some projects could not gain access to the international markets
c) Some projects could not secure enough inputs
d) Some projects intentionally overestimated costs in order to borrow excessive loan amounts and DBE could not judge the appropriate amount (some excess funds were taken out of the country)

Many DBE officers commented that the current level of non-performing loans is manageable for the nature of development finance but they are trying hard to gain industry expertise to minimize them.

2-3-2. Industry concentration risk

Because the DBE's mission is to provide credit to areas designated by the government, its loan portfolio becomes inevitably skewed toward a handful of industries. Currently, more than half of DBE's total exposure is in three sectors—namely, textiles and garments with 26.5%, non-metal products with 17.1% and agro-processing with 10.5%. While it makes DBE vulnerable to external shocks, such as sudden fall in international textile prices, this risk is unavoidable due to its mission of supplying funds to certain priority sectors.

2-3-3. Project completion risk

Because of the rapid increase in loan outstanding, from birr 9,424 million in June 2009 to birr 17,833 million in March 2013, 45% of loan outstanding is for projects under implementation, as of March 2013. Of 110 projects under implementation, 40 have been delayed due to cost overrun, lack of commitment by the clients, delay in machinery import, failure to raise equity or construction-related problems.

If a project is not completed, no revenue is generated and debt repayment becomes impossible. The projects may encounter various issues such as unexpected site conditions, unusual weather, opposition from residents, sudden appreciation of construction costs and so on. In order to prepare for such risk, a common practice among project finance lenders is to ask the project sponsors for a completion guarantee. By doing so, lenders reaffirm the project sponsors' responsibility to bear additional burden, financially and otherwise, to overcome whatever issues arise.

In contrast, the DBE is intentionally sharing completion risk with project sponsors. While being like a co-owner of the project lightens the burden of the client, the risk for the loss becomes much larger. However, since the aim is to provide an additional incentive for investment in priority sectors, it is a risk that the DBE has to accept; however, the DBE should monitor and continuously reexamine the cost and the benefit of this policy.

2-3-4. Foreign exchange risk

DBE is susceptible to foreign exchange risks in terms of both assets and liabilities. On the asset side, its large exposure to export-oriented projects makes the DBE vulnerable to the appreciation of the birr, which reduces domestic currency income for the clients. On the other hand, foreign currency borrowing makes the DBE vulnerable to the depreciation of the birr, which increases domestic currency payment obligations.

As of March 2013, foreign borrowing was about birr 89 million, while the exposure to the export-oriented textile sector alone exceeded birr 5,036 million. As the country's industrial policy focuses increasingly on the export sector, the DBE will continue to be exposed to currency appreciation risk.

2-3-5. Political risk

One of the most commonly cited criticisms against any governmental financial institution, including development banks, is diversion of the country's financial resources to businesses with special ties to political groups. In Ethiopia, politically related business interests are commanding a large share of the economy. DBE officers admit that they receive loan applications from such business groups but insist that they conduct standard loan screening and appraisal processes to make judgments on financial viability and developmental impact for the country.

If we look at the list below of the largest borrowers, we can find several politically related businesses. However, it is not easy to judge if the lending by the DBE to the companies below is a result of rent seeking. As mentioned above, the DBE lends to projects that are new to Ethiopia and, therefore, involve higher risk than other businesses, such as hotels or offices. It is possible to view the participation of politically related businesses in priority sectors as a risk-sharing between such businesses and the DBE.

Table 2-8 Politically-related clients among top 25 largest borrowers

Rank	Client name	Parent	Loan outstanding with commitment balance (mm birr)	% of total portfolio	% of paid-in capital	NPLs
5	Masebo Building Material Production	EFFORT	1,341	6.3%	74.4%	
6	Almeda Textile Factory	EFFORT	728	3.4%	40.4%	Doubtful
12	Addis Pharmaceuticals	EFFORT	507	2.4%	28.1%	
14	Gonder Malt Factory PLC	Tiret	366	1.7%	20.3%	
20	Hiwot Agricultural 32	EFFORT	192	0.9%	10.6%	
22	Sheba Leather Industry PLC	EFFORT	182	0.9%	10.1%	
25	Dashen Brewery	Tiret	129	0.6%	7.1%	
Total			3,444	16.1%	191.0%	

Sources: DBE Portfolio Concentration Report April 2013 and public information.

2-3-6. Inflation risk

Inflation risk in financing is related to reduction in the purchasing power of loans, and it is a greater concern for longer-term loans. This risk can be partially mitigated by employing a variable interest rate because the interest rate rises when the general prices goes up. The interest rate on DBE loans is variable and changes with the deposit rate set by the National Bank of Ethiopia. The same practice is employed by commercial banks in Ethiopia.

2-3-7. Sovereign risk

Sovereign risk is conceived when a lender provides credit to a borrower in a foreign country. The most prominent sovereign risk is transfer risk, under which any cross-border transfer of funds or exchange to foreign currency is prohibited by the government of the borrower country. Other types of sovereign risk include those related to sudden changes in laws and regulations, to riot or war and to nationalization of private assets.

Some development financial institutions lend cross border to foreign subsidiaries. However, the DBE’s lending activities are limited to the domestic market. While sudden change in laws and regulations or regarding nationalization cannot be ruled out, potential damage is not unique to development finance but would likewise impact any finance or business activity.

Chapter 3 Analysis of the Development Bank of Ethiopia

3-1. Overview of the banking industry in Ethiopia

As of today, the total number of banks in Ethiopia is 17 including three state-owned banks: the Commercial Bank of Ethiopia (CBE), Development Bank of Ethiopia (DBE) and Construction and Business Bank (CBB). As illustrated in Table 3-1, the CBE still has dominant market position, followed by the DBE. Market shares of the three state-owned banks in terms of credit activities and fund mobilization have been stable for the past three years as shown in Table 3-2.

As for branch network, the CBE has increased its number of branches very rapidly in recent years and holds a very dominant position as shown in Table 3-3. As of today (June 2013), the CBE has more than 680 branches, whereas the DBE has not increased its branch network recently.

Table 3-1 Loans and advances by lenders

(birr million)

	2009/2010					2010/2011				
	Disburse-ment	%	Collection	Outstand-ing credit	%	Disburse-ment	%	Collection	Outstand-ing credit	%
CBE	10,697	37%	9,117	22,859	42%	17,797	42%	10,157	34,218	46%
Construction and Business Bank	494	2%	497	1,748	3%	367	1%	594	1,727	2%
Development Bank of Ethiopia	2,748	10%	555	8,787	16%	3,792	9%	1,237	11,981	16%
Total public banks	**13,939**	**48%**	**10,168**	**33,395**	**61%**	**21,956**	**52%**	**11,988**	**47,925**	**65%**
Awash International Bank	2,956	10%	3,153	3,164	6%	4,654	11%	4,257	3,995	5%
Bank of Abyssinia	2,140	7%	1,885	3,153	6%	2,498	6%	2,338	3,316	4%
Dashen Bank	2,232	8%	2,434	5,033	9%	2,912	7%	2,748	6,142	8%
Wegagen Bank	2,189	8%	2,324	2,474	5%	2,612	6%	2,641	2,910	4%
United Bank	2,284	8%	2,154	2,525	5%	2,557	6%	2,287	3,277	4%
Nib International Bank	1,067	4%	1,325	2,546	5%	1,645	4%	1,725	2,767	4%
Cooperative Bank of Oromia	572	2%	635	722	1%	660	2%	704	800	1%
Lion International Bank	355	1%	314	584	1%	473	1%	515	677	1%
Oromia International Bank	424	1%	263	384	1%	649	2%	465	645	1%
Zemen Bank	368	1%	276	369	1%	817	2%	490	662	1%
Buna International Bank	224	1%	28	191	0%	310	1%	187	366	0%
Berhan International Bank	156	1%	108	153	0%	312	1%	192	330	0%
Abay Bank						152	0%	11	161	0%
Addis International Bank										
Total private banks	**14,966**	**52%**	**14,899**	**21,298**	**39%**	**20,252**	**48%**	**18,560**	**26,047**	**35%**
Total of all banks	**28,905**	**100%**	**25,067**	**54,692**	**100%**	**42,208**	**100%**	**30,548**	**73,971**	**100%**

Source: NBE Annual Report 2010/11

Table 3-2 Share of public/private banks

(birr million)

		2008/2009		2009/2010		2010/2011	
Deposit (net change)	Public banks	7,525	49.5%	11,863	57.9%	30,423	72.6%
	Private banks	7,671	50.5%	8,618	42.1%	11,475	27.4%
	Total	15,196	100.0%	20,481	100.0%	41,898	100.0%
Disbursement	Public banks	12,782	50.2%	13,939	48.2%	21,956	52.0%
	Private banks	12,695	49.8%	14,966	51.8%	20,252	48.0%
	Total	25,477	100.0%	28,905	100.0%	42,208	100.0%
Outstanding credit	Public banks	33,913	65.7%	39,385	63.2%	50,744	65.3%
	Private banks	17,721	34.3%	22,896	36.8%	26,947	34.7%
	Total	51,634	100.0%	62,281	100.0%	77,691	100.0%

Source: NBE Annual Report 2010/11.

Table 3-3 Branch network of the banking system

	2009/2010			2010/2011		
	Total	Addis	Regions	Total	Addis	Regions
CBE	209	49	160	417	94	323
Construction and Business Bank	32	15	17	34	17	17
Development Bank of Ethiopia	32	1	31	32	1	31
Total public banks	**273**	**65**	**208**	**483**	**112**	**371**
Awash International Bank	62	31	31	70	34	36
Bank of Abyssinia	47	25	22	57	32	25
Dashen Bank	59	30	29	65	34	31
Wegagen Bank	50	23	27	53	24	29
United Bank	42	27	15	50	32	18
Nib International Bank	48	31	17	51	32	19
Cooperative Bank of Oromia	37	5	32	43	5	38
Lion International Bank	22	11	11	30	13	17
Oromia International Bank	27	6	21	36	11	25
Zemen Bank	3	3	0	3	3	0
Buna International Bank	3	3	0	11	9	2
Berhan International Bank	8	5	3	10	7	3
Abay Bank	0	0	0	8	1	7
Addis International Bank	0	0	0	0		
Total private banks	**408**	**200**	**208**	**487**	**237**	**250**
Total of all banks	**681**	**265**	**416**	**970**	**349**	**621**

Source: NBE Annual Report 2010/11.

3-2. History of DBE and change of its financing area

The DBE "has taken different names at different times even though its mission and business purposes remained the same, development of the nation," as described in its presentation. Currently, its stated mission is "DBE 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 funds from domestic and foreign sources while ensuring its sustainability.”

Picture: Panel explaining mission of DBE at its Headquarters

The history of the DBE goes back to the year 1909, when the Societe Nationale d’Ethiopia Pour le Development de L’agriculture et de Commerce (The Society for the Promotion of Agriculture and Trade) was established.

Under the state socialism regime in 1974-91, all of the private financial institutions were nationalized and reorganized by the government into one commercial bank, the Commercial Bank of Ethiopia (CBE), one national bank, and two specialized banks, the Agricultural and Industrial Bank (renamed as the Development Bank of Ethiopia) and the Housing and Saving Bank (renamed as the Construction and Business Bank). In this period, these banks, including the DBE, were providing finance to public projects based on the central government’s economic plan. As illustrated in Tables 3-4 and 3-5, the DBE was mainly functioning as an agricultural bank for the state enterprises, mainly agricultural cooperatives, while the CBE was regarded as the bank for the central government.

Table 3-4 Financing activities of DBE during 1985-1991

(birr million)

Loans and advances by sector

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Central government						
Agriculture	267	132	305	239	214	81
Industry	26	38	36	111	79	43
Domestic trade	0	0	0	0	0	0
International trade	0	0	0	0	0	0
Housing & construction	3	0	1	2	1	2
Transport & communication	0	0	0	3	1	0
Hotels and tourism	1	0	1	2	5	13
Mines, power & water res.	4	18	20	18	20	0
Personal	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	301	189	363	374	319	139

Outstanding loans and advances by sector

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Central government						
Agriculture	1,200	1,358	1,582	1,685	1,835	1,887
Industry	169	170	181	260	329	359
Domestic trade						
International trade						
export						
import						
Housing & construction	23	19	19	19	20	21
Transport & communication	43	39	39	26	20	18
Hotels and tourism	6	5	6	7	11	21
Mines, power & water res.	19	37	55	75	90	87
Personal	0	0	0	0	0	0
Others	2	0	0	0	0	0
Total	1,461	1,628	1,883	2,072	2,305	2,392

Outstanding loans and advances by institutional category

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
State enterprises	1,414	1,577	1,811	1,972	2,125	
Financial sector	0	0	0	0	0	
Non-financial sector	1,414	1,577	1,811	1,972	2,125	
Private sector	47	51	72	100	180	
Cooperatives	27	29	46	70	137	
Private enterprises and agen	20	22	25	30	42	
Total	1,461	1,628	1,883	2,072	2,305	

Table 3-5 Financing activities of CBE during 1985-1991

(birr million)

Loans and advances by sector

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Central government	61.7	58.1	53.5	59.7	65.7	70.7
Agriculture	1.9	2.7	2.6	1.9	1.5	1.3
Industry	4.4	5.0	5.9	6.7	5.6	5.3
Domestic trade	5.7	7.2	8.8	5.5	4.7	3.7
International trade	14.5	15.9	17.4	16.4	13.8	10.6
export	8.9	6.0	5.6	7.5	5.1	5.7
import	5.6	10.0	11.8	8.9	8.7	4.9
Housing & construction	7.0	6.3	6.4	6.0	5.7	5.5
Transport & communication	3.2	3.0	4.2	2.7	2.0	1.8
Hotels and tourism	0.5	0.5	0.4	0.3	0.3	0.4
Mines, power & water res.	0.0	0.0	0.0	0.0	0.0	0.0
Personal	0.4	0.4	0.4	0.3	0.3	0.4
Others	0.7	0.7	0.5	0.4	0.4	0.4
Total	2,353	2,500	2,800	3,130	3,406	3,721
Inter-bank lending	19	19	18	24	26	25
Grand total	2,372	2,519	2,818	3,155	3,432	3,746

Outstanding loans and advances by institutional category

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Central government	1,451	1,452	1,498	1,869	2,239	
Financial sector	19	19	18	24	26	
Non-financial sector	546	637	829	874	786	
Private sector	355	412	473	388	381	
Cooperatives	3	30	21	22	13	

Source: Alemayehu Geda "The Structure and Performance of Ethiopia's Financial Sector in the Pre- and Post-Reform Period with a Special Focus on Banking" (October 2006).

After the regime change in 1991, liberalization policy was introduced in the finance industry, and the banks were allowed to serve the private sectors and new private banks were established. The DBE was re-established in 1994 with paid-up capital of ETB 62.5 million and changed its name from the Agricultural and Industrial Bank to the current name. Table 3-6 shows significant change in loan sectors and institutions after 1991. The main target of the DBE's financing activities had shifted from state enterprises in the agriculture sector to private enterprises in both the agriculture and the industry sectors.

Table 3-6 Financing activities of DBE during 1992-2003 (birr million)

Loans and advances by sector

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Central government											
Agriculture	118	28	163	266	275	418	285	224	109	60	32
Industry	24	119	134	153	173	426	191	146	124	38	15
Domestic trade	0	0	1	0	0	0	0	0	0	0	0
International trade	0	0	0	0	0	0	0	0	0	0	0
Housing & construction	1	0	2	1	33	18	21	42	9	4	1
Transport & communication	0	0	0	2	2	0	0	1	1	0	0
Hotels and tourism	12	18	22	16	44	33	39	16	7	4	2
Mines, power & water res.	0	0	0	0	0	0	0	0	0	0	0
Personal	0	0	0	0	0	105	0	0	0	0	0
Others	0	1	14	64	31	139	247	116	83	22	7
Total	155	166	336	503	558	1,137	783	545	332	128	57

Outstanding loans and advances by sector

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Central government											
Agriculture	1,967	235	234	476	566	712	897	999	1,030	1,053	
Industry	438	531	620	852	960	948	1,127	1,229	1,314	1,359	
Domestic trade											
International trade											
export											
import											
Housing & construction	19	19	18	0	85	104	130	182	204	222	
Transport & communication	18	18	15	23	28	27	28	31	33	19	
Hotels and tourism	38	53	73	111	165	212	271	179	268	260	
Mines, power & water res.	75	51	42	37	30	32	23	25	26	27	
Personal	0	0	3	3	0	95	0	0	0	0	
Others	0	2	10	234	104	681	1,021	1,377	1,390	1,504	
Total	2,554	908	1,015	1,736	1,937	2,810	3,497	4,021	4,265	4,442	

Outstanding loans and advances by institutional category

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
State enterprises	2,286	479	478	596	465	406	372	336	321	323	
Financial sector	0	0	0	0	0	0	0	0	0	0	
Non-financial sector	2,286	479	478	596	465	406	372	336	321	323	
Private sector	268	429	538	1,141	1,472	2,404	3,125	3,685	3,943	4,119	
Cooperatives	180	211	182	332	322	306	341	368	380	396	
Private enterprises and agen	88	219	356	808	1,150	2,099	2,784	3,317	3,564	3,723	
Total	2,554	908	1,015	1,736	1,937	2,810	3,497	4,021	4,265	4,441	

Table 3-7 Financing activities of CBE during 1992-2003 (birr million)

Loans and advances by sector

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Central government	52.3	46.8	34.5	32.2	22.0	20.9	22.4	22.1	41.5	47.1	55.9
Agriculture	0.9	1.4	2.2	2.4	3.5	3.4	3.5	3.5	2.4	2.8	2.3
Industry	11.0	8.9	6.1	6.5	7.5	7.5	7.5	7.1	6.4	5.6	5.5
Domestic trade	8.6	14.0	16.7	19.5	20.4	18.3	12.9	12.5	6.9	5.3	3.6
International trade	19.0	18.9	20.8	19.6	25.0	25.3	24.6	21.8	15.5	13.7	8.1
export	8.2	10.1	9.8	7.3	9.8	9.5	9.7	7.4	5.6	4.0	2.7
import	10.8	8.8	11.0	12.3	15.2	15.9	14.8	14.4	9.9	9.7	5.4
Housing & construction	4.1	4.1	4.1	4.0	4.5	4.0	4.3	4.5	4.0	3.3	3.8
Transport & communication	2.7	4.1	6.6	9.6	10.0	8.3	4.8	5.9	3.4	2.2	1.4
Hotels and tourism	0.9	1.3	2.4	1.8	2.0	1.9	1.2	1.1	0.7	1.0	0.5
Mines, power & water res.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personal	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.2
Others	0.2	0.5	6.4	4.2	4.9	10.1	18.6	21.4	19.1	18.8	18.7
Total	5,009	5,597	7,451	8,842	9,497	10,487	11,583	12,098	16,620	17,339	17,943
Inter-bank lending	111	128	180	528	541	497	547	677	564	0	457
Grand total	5,120	5,725	7,630	9,369	10,038	10,984	12,130	12,775	17,185	17,339	18,400

Outstanding loans and advances by institutional category

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Central government	2,617	2,617	2,574	2,847	2,090	2,193	2,600	2,676	6,901	8,161	10,039
Financial sector	111	128	180	528	541	497	547	677	564	0	0
Non-financial sector	1,382	1,489	1,774	1,876	1,573	1,488	1,193	1,350	1,170	0	0
Private sector	1,010	1,491	0	4,419	5,835	6,806	7,790	8,072	8,550	7,729	6,918
Cooperatives	33	66	108	107	122	113	340	325	261	298	284

Source: Alemayehu Geda "The Structure and Performance of Ethiopia's Financial Sector in the Pre- and Post-Reform Period with a Special Focus on Banking" (October 2006).

The DBE increased its paid-up capital to ETB 480 million in 2003, and to the current ETB 1,800 million in 2005.

Along with the Ethiopian government's initiative of Civil Service Reform in the late 2000s, the DBE has gone through major changes in both its financing areas and organization.

The revised credit policy issued in September 2009 is regarded as the important document which rules the DBE's current financing business. Major changes in this credit policy from the past policy are as follows.

Firstly and most importantly, based on the new credit policy, the DBE now provides finance purely to projects in the government's priority areas, with emphasis given to export-oriented ones. These priority areas are (1) commercial agriculture, (2) agro-processing and (3) manufacturing. In other words, the DBE cannot provide finance to other areas, including (but not limited to) the service, tourism and trade sectors, which the DBE used to give loans to. There are exceptions to this rule on financing areas, however, when the Ethiopian government requests the DBE to finance very important national projects. Recent exceptions include a dry port facility in Mojo and the Grand Renaissance Dam project.

Secondly, the DBE is now a specialized long-term bank focusing on medium-term (3- to 5-year) and long-term (5- to 15-year) loans. It can also finance short-term working capital, but only for projects that it supports.

Thirdly, the credit policy stipulates the minimum equity contribution by borrowers, which is 30% of the total project cost in cash for green-field projects and 40% of the total project costs in cash and/or in kind for expansion of existing projects. In many projects, the DBE is the sole financier along with the project owners, but for large-scale projects—for example, the recent sugar factory and cement plant projects—the DBE tends to co-finance with other banks, including international financial organizations.

Fourthly, the DBE, as a rule, now requires collateral only on the project assets, and does not request borrowers to provide additional collateral outside the project. In this sense, the DBE's loan collection is completely dependent on the performance of the targeted projects.

Lastly, the DBE is now allowed to buy out loans from other banks only if such loans are for viable, going concerns or are project loans in priority sectors.

As for organizational change, in addition to replacement of management members, including the president and two vice presidents, the DBE has implemented a business process re-engineering (BPR) project based on the Balanced Scorecard (BSC) framework, in order to improve the working environment internally and to better serve loan clients externally. The BPR has led to results including (but not limited to) better customer satisfaction (from 30-40% in the past to 81% most recently), a shorter loan processing cycle (from 6 months to 41 working days), better follow-up of projects and borrowers, a lower NPL ratio (from more than 30% to less than 10%), and so on.

3-3. Current business scope

The new credit policy implemented in 2009 stipulates that "The Bank shall extend investment credit to creditworthy borrowers and projects that have received a thorough appraisal and are found to be financially and economically viable and socially desirable. The DBE shall extend long- and medium-term loans as well as short-term working capital as a package. The term of each loan is, however, to be determined based on the specific needs and requirements of its respective project."

Currently, the DBE is regarded as the only development bank that specializes in large-scale project financing in the government's priority areas. Table 3-8 illustrates the DBE's loan activities (approval, disbursement and collection) by sectors in recent years. Private enterprises in the industrial (manufacturing) sector have the largest share, followed by private enterprises in agriculture.

Table 3-8 Financing activities of DBE during 2005 – 3Q 2013 (birr million)

Loan Approval

	2005/2006	2006/2007	# of loans	2007/2008	2008/2009	2009/2010	2010/2011	%	2011/2012	%	3Q of 2012/2013	%
1. Agriculture												
Public Enterprises		1,692	1					0%		0%		
Cooperative	108	76	36	107	96	99	141	3%	204	3%	119	2%
Private	163	257	86	249	165	391	1,080	20%	1,379	17%	600	11%
Subtotal	271	2,025	122	356	261	491	1,222	22%	1,584	20%	718	13%
2. Industry												
Public Enterprises	680							0%		0%		
Private	594	1,058	28	1,264	2,105	1,307	4,212	76%	5,577	70%	3,910	70%
Micro-Enterprises	4	2	25	1	1	0		0%		0%		
Subtotal	1,278	1,060	53	1,266	2,107	1,307	4,212	76%	5,577	70%	3,910	70%
3. Others												
Public Enterprises								0%		0%		
Private	21	86	276	163	238	28	47	1%	677	8%	21	0%
RUFIP	97	154	14	72	178	208	54	1%	134	2%	942	17%
Subtotal	118	240	290	235	416	236	101	2%	812	10%	962	17%
Total	1,667	3,325	465	1,857	2,784	2,033	5,534	100%	7,973	100%	5,590	100%

Loan Disbursement

	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	%	2011/2012	%	3Q of 2012/2013	%
1. Agriculture											
Public Enterprises		268	207	9	131	110	3%	306	7%	315	9%
Cooperative	56	57	93	83	91	102	3%	169	4%	71	2%
Private	245	168	173	176	144	359	9%	611	13%	509	14%
Subtotal	301	493	473	268	366	571	15%	1,086	24%	895	25%
2. Industry											
Public Enterprises			16	13	11	125	3%	36	1%		
Private	211	80	221	706	2,182	2,832	75%	3,160	70%	2,065	58%
Micro-Enterprises	2	2	1	2	2		0%		0%		
Subtotal	213	82	238	721	2,195	2,957	78%	3,196	70%	2,065	58%
3. Others											
Public Enterprises		1					0%	46	1%		
Private	39	65	128	159	99	67	2%	141	3%	32	1%
RUFIP	97	151	65	155	91	197	5%	71	2%	566	16%
Subtotal	136	218	193	315	189	265	7%	259	6%	598	17%
Total	649	793	904	1,304	2,750	3,793	100%	4,541	100%	3,558	100%

Table 3-8 Financing activities of DBE during 2005 – 3Q 2013 (continued)

Loan Collection

	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	%	2011/2012	%	3Q of 2012/2013	%
1. Agriculture											
Public Enterprises				1			0%		0%		
Cooperative	54	49	75	102	87	173	12%	124	6%	128	7%
Private	109	195	226	229	257	293	21%	326	15%	236	14%
Subtotal	164	244	301	332	344	466	34%	451	21%	364	21%
2. Industry											
Public Enterprises	1	1			0	1	0%	15	1%		
Private	333	427	182	205	241	728	53%	1,420	66%	1,140	66%
Micro-Enterprises	3	2	4	1	1	0	0%	0	0%		
Subtotal	337	430	186	206	242	729	53%	1,435	67%	1,140	66%
3. Others											
Public Enterprises	0	1			0	1	0%	33	2%	32	2%
Private	79	79	110	101	136	147	11%	169	8%	105	6%
RUFIP	3	12	10	17	29	43	3%	67	3%	96	6%
Subtotal	82	91	120	118	164	190	14%	269	12%	233	13%
Total	583	765	607	656	750	1,386	100%	2,155	100%	1,737	100%

Sources: DBE’s Annual Reports, Provisional Financial Statements of 2011/2012, Third Quarter Performance Report 2012/2013.

(RUFIP stands for Rural Financial Intermediation Program, and DBE provides loans to microfinance institutions in this program.)

Table 3-9 shows the DBE's loans outstanding by sector. Loans outstanding has been increasing substantially to more than double in less than three years, led by large growth in long-term loans in the industrial sector.

Table 3-9 DBE's loans outstanding by sector

(birr million)

	2009/2010	%	2010/2011	%		2013 March (with commitment)	%
1. Agriculture	2,148	23%	2,263	19%	1. Agriculture	2,817	13%
2. Industry	5,812	62%	8,166	68%	2. Industry	15,955	75%
3. Others	1,466	16%	1,551	13%	(1) textile and garments	5,036	24%
Total	9,426	100%	11,980	100%	(2) non-metal products	3,494	16%
					(3) integrated agro-process	1,840	9%
					3. Service	724	3%
					4. RUFIP	1,780	8%
					5. Mining & Energy	29	0%
					6. Consumer loans	53	0%
					7. Financial services		
					Total	21,357	100%

Sources: DBE's Annual Reports, Loan Portfolio Concentration Report (April 2013)

Table 3-10 illustrates detailed breakdown of loans outstanding by sector as of the end of March 2013. The largest three sectors, textile and garments, non-metal products and agro-processing, now occupy almost 60% of the total loan portfolio.

Table 3-10 DBE's loans outstanding by sector as of March 31, 2013

(birr million)

	# of loans	Total loan portfolio excluding commitment balance	%	Total loan portfolio including commitment balance	%	Average loan size excluding commitment (birr million)
1. Agriculture						
Horticulture	49	647	3.6%	774	3.6%	13
Cereal and pulses	20	151	0.8%	519	2.4%	8
Fiber crops	13	225	1.3%	512	2.4%	17
Oil crops	101	402	2.3%	455	2.1%	4
Coffee	270	381	2.1%	419	2.0%	1
Sub-total	453	1,806	10.1%	2,679	12.5%	4
2. Industry						
Textile and garments	55	5,036	28.2%	5,660	26.5%	92
Non-metal products	23	3,494	19.6%	3,645	17.1%	152
Agro-processing	34	1,840	10.3%	2,251	10.5%	54
Communication equipment and apparatus	2	689	3.9%	1,508	7.1%	344
Medical instruments and equipment	5	559	3.1%	661	3.1%	112
Food processing	189	582	3.3%	656	3.1%	3
Leather and leather products	19	486	2.7%	505	2.4%	26
Liquor and beverage	9	536	3.0%	579	2.7%	60
Chemical and plastic products	37	275	1.5%	324	1.5%	7
Sub-total	373	13,496	75.7%	15,787	73.9%	36
3. Service						
Hotel and toursim	154	243	1.4%	247	1.2%	2
Transportation	17	194	1.1%	194	0.9%	11
Sub-total	171	438	2.5%	441	2.1%	3
4. RUFIP	176			1,780	8.3%	10
5. Mining and energy	2	26	0.1%	29	0.1%	13
Sub-total	1,579	17,790	99.8%	21,311	99.8%	11
6. Consumer loans	1,326	43	0.2%	46	0.2%	0
Total	2,905	17,833	100.0%	21,357	100.0%	6

Source: DBE's Loan Portfolio Concentration Report (April, 2013).

With regard to nationality of borrowers, foreign borrowers comprise 30% of the total loans as of the end of March 2013. Turkish borrowers account for 25.9% of the foreign buyers, followed by Indian borrowers, 3.7%, and Israeli borrowers, 0.5%.

Table 3-11 DBE's loans outstanding by nationality of borrowers

(including commitment balance as of March 31, 2013)

Local borrowers	14,894	70%
Foreign borrowers	6,463	30%
Total	21,357	100%

Source: DBE's Loan Portfolio Concentration Report (April, 2013).

(Among borrowers, JV of local companies and foreign companies is not included.)

The interest rate on DBE loans is fixed at 8.5%, regardless of maturity of loan, credit risk of the borrower and viability of the project, and is much lower than those of commercial banks, which are around 15% for medium-term loans and 11.5% for short-term loans.

3-4. Relationship with the government

The DBE conducts independent credit decision-making based on its own credit and project appraisal, and its credit decision is not influenced by the government or politicians, according to DBE managers. As the sole shareholder of the DBE, the government plays a vital role in determining its important policy and strategy and supervises its overall lending and funding activities, but it does not generally intervene in the credit decision on individual loans.

As a matter of fact, loans to public enterprises over which the government has strong influence are limited currently as shown earlier. However, the recent financings to such projects as the Grand Renaissance Dam and the state-owned sugar factory suggest that the government still has influence on DBE business to some extent, at least in selecting target projects.

As for fund mobilization, the DBE is now highly dependent on the government's program. It receives funds from the National Bank of Ethiopia in the form of NBE bills, explained in the previous chapter. The NBE bill has been introduced by the Ethiopian Government and NBE to support the DBE's fund mobilization. The NBE bill has a 5-year maturity (bullet payment) with an annual 3% coupon. The balance of NBE bills outstanding is ETB 16.5 billion as of June 2013, which occupies a great part of the DBE's total liabilities.

3-5. Relationship with CBE and private banks

Co-financing or participation in syndicated loans with commercial banks is very rare in the DBE's financing projects. This is because projects to which the DBE provides loans are considered to involve higher risk and require longer-term repayment schedules, and it is difficult for private commercial banks, some of which are still small in size and do not have long operational experience, to be a co-financier in such projects.

3-6. Management strategy

The DBE has developed its 5-year (2010-2015) strategic plan, Corporate Balanced Scorecard (2010-2015), in accordance with the Growth and Transformation Plan (GTP) issued by the

Ethiopian Government.

In its strategic plan report, the DBE analyzed its strengths, weaknesses, opportunities, and threats (SWOT) as follows.

Table 3-12 DBE's SWOT analysis

Strength	Weakness
▪ Educationally qualified and multidisciplinary human resource ▪ Process based organization (structure) ▪ Workable policies in relevant areas ▪ Clarity in the Bank's focus areas of operation ▪ Availability of basic fixed asset; ▪ Increased awareness on the importance of risk and on-going effort to develop this system to its potential; ▪ Long experience in the area of project finance ▪ On-going transformation supported by M&E;	▪ Low HR development • Low level of team spirit • In adequate knowledge and skill on specific sectoral operational areas; • Shortcomings in the area of project appraisal; • Inadequate projects supervision • Weak planning, monitoring and evaluation system; • poor work culture and work discipline • Weak attitude and outlook towards change ▪ Poor remuneration system & its negative consequences • Inadequate reward and incentive system • Attrition of professional employees ▪ Weak internal and external communication • Poor public image • communication problems on policies • incomplete procedures ▪ Finance related problems • Insufficient capital base • Inadequate treasury and trade finance performance • Poor managed fund administration ; • Weak resource mobilization effort and experience; • Liquidity management problem /Absence of ALCo/ • Accounts administration & management problem ▪ Huge size of non-performing loan ▪ accounts & lack of timely action on write-off ▪ Poor record management system ▪ IT related problems • Inadequate IT infrastructure and IT support • Low IT adaptation ▪ Increase in number of acquired assets ▪ Low level of efficiency and effectiveness in service delivery.

Table 3-12 DBE's SWOT Analysis (continued)

Opportunities	Threat
i. **Political and Legal Factors** ▪ Market led economy ▪ Favorable Investment Policy ▪ Favorable Land Policy ▪ Economy focused Foreign Relation Policy/Economic Diplomacy/ ▪ Civil Service & Financial Sector Reform Program ▪ Peace and Stability in the Country	▪ Limited Liability Right for PLCs ▪ Instability and the threat of terrorism in some Neighboring Countries
ii. **Economic Factors** ▪ High Potential for Investment Flow ▪ Continuous Economic Growth by Double Digit ▪ Continuous Improvement in Infrastructure ▪ Stable Macro-Economic Situation ▪ Growing Trade Relations with other Countries ▪ Globalization ▪ Adequate Natural Resource (different agro-ecologies)	▪ Low national saving rate ▪ Shortage of Foreign Currency ▪ Low Capacity to Control Dumping ▪ Potential Competition for FDI with Neighboring Countries
iii. **Social and Environmental Factors** ▪ Abundant Labor Supply ▪ Large Local Market ▪ Growing Health and Education ▪ Growing Anti-corruption Awareness	▪ Low Labor Productivity ▪ Weak Entrepreneurial Capacity; ▪ Low Credit Discipline ▪ Underdeveloped Work Culture ▪ Traditional Business Management ▪ Low Attention to the Environment ▪ Biases against Locally Manufactured Goods; ▪ Poor Country Image ▪ Climate Change and Recurrent Drought
iv. **Technological Factors** ▪ Expansion in Infrastructure & Communication Technology; ▪ Expansion in Agricultural Research; ▪ Attention to Science & Technology	▪ Limitation of Data and Information; ▪ Absence of Adequate Consultancy Services; ▪ Low Adoption to New Technology

Source: DBE's Corporate Balanced Scorecard (2010-2015).

Table 3-13 illustrates targets of each measures for 2010-2015 and the actual results of 3Q 2013.

Table 3-13 Targets in DBE's strategic plan

	Baseline	2011	2012	2013	2014	2015	2013 3Q actual
Development / Finance							
Enhance stakeholder interst							
% of successfully operating project	15%	21%	29%	39%	55%	75%	28%
debet service performance	37%	100%	100%	100%	100%	100%	100%
compliance with regulation	4	3	3	3	2	2	3
amount of saving bond mobilized (mil)	0	200	1,000	2,300	3,100	4,100	229
loan approval (mil)	2,030	5,190	5,930	7,460	8,650	10,860	2,118
loan disbursement (mil)	2,750	3,200	4,290	5,780	6,940	8,250	1,347
Improve financial posittion							
NPL ratio	23%	9.73%	9.50%	7.36%	7.08%	7.04%	8.66%
loan collection (mil)	750	1,300	1,390	1,600	2,020	2,860	845
Improve earnings							
return on asset	0.48	0.56	0.64	0.74	0.86	1.00	0.80%
ratio of non-interest income	0.80%	0.96%	1.20%	1.40%	1.70%	2.00%	25.24%
return on capital / equity	2.68%	3.54%	4.17%	5.04%	5.29%	5.71%	7.24%
productivity	620	710	751	800	853	905	438.19
profit growth (mil)	54.4	134.9	138.8	171.9	185.2	205.8	144%
Customer perspective							
Increase customer satisfaction							
internal customer score							
external customer satisfaction score	65%	70%	75%	80%	85%	90%	81.4%
rate of recurring customer complaints	33%	26%	21%	16%	13%	10%	17%
Impove image							
position in the market	2nd	2nd	2nd	2nd	2nd	2nd	2nd
Internal business process							
Improve service delivery							
average cycle time (working days)	58	48	44	38	34	32	41
rework rate							15%
% of projects that meet implementation schedule	NA	80%	90%	100%	100%	100%	40%
Improve asset management							
project follow-up coverage	53%	80%	90%	100%	100%	100%	84%
loan recovery rate	25%	50%	60%	68%	75%	85%	55%
uncollected recievable rate	51%	25%	10%	8%	5%	3%	10%
rate of fresh entrant to NPLs	4%	3%	2%	2%	1%	1%	3.18%
Improve communication							
communication outreach							100%
frequency of utilization of communication outlets							1
Learning & growth							
Improve employee competency							
strategic skill coverage							
leadership competency coverage ratio							
number of staff who get strategic training							377
Improve information organization & managemer							
IT support coverage ratio	35%	50%	70%	90%	100%	100%	92%
information accessibility ratio	45%	65%	90%	100%	100%	100%	80%
Improve organizational culture							
organization culture change index	58%	60%	63%	65%	67%	70%	93%
team development index							
Improve organizational alignment							
employee satisfaction rate	44%	59%	70%	90%	90%	90%	91%
strategic awareness							
professional attritiion rate	8%	7%	6%	5%	5%	5%	2.2%

Sources: DBE's Corporate Balanced Scorecard (2010-2015), Third Quarter Performance Report 2012/2013.

In evaluating the performance results of its strategic plan, the DBE prepares Quarterly Progress Report (QPR), which highlights major accomplishments, shortfalls, challenges and suggested mitigation measures for core credit operation, financial performance and other support services.

According to the QPR prepared in April 2013 (for the 3rd quarter of 2012/2013), the DBE considers three issues as the most formidable challenges: (1) mobilizing resources, (2) reducing NPLs and (3) developing change agents with development-minded attitudes. As "The Way Forward," the DBE considers the following measures to be undertaken for its sustainable and effective financing operations.

- Look for soft loans from both national and international funding agencies and strengthen fund-mobilization strategy.
- Strengthen the relationship with the Ministry of Foreign Affairs and Ethiopian embassies abroad for know-your-customer assessment and to protect the Bank's interest.
- Conduct continuous awareness-creation forums as well as experience-sharing programs with different government bodies, stakeholders and collaborators to streamline the Bank's service in line with the national development agenda both at the head office and in the regions.
- Implement capacity building for the employees of the Bank in some key areas through experience-sharing and training based on needs assessment, and compel the applicants to use licensed consultants.
- Enhance partnership development with national and international organizations to resolve data source problems.
- Ensure timely and proper follow-up and technical support on projects, for both implementation and operation.
- Exert maximum effort on some huge corporate projects, especially to strengthen collection and realize the smooth implementation and operation of those projects.

3-7. Organization

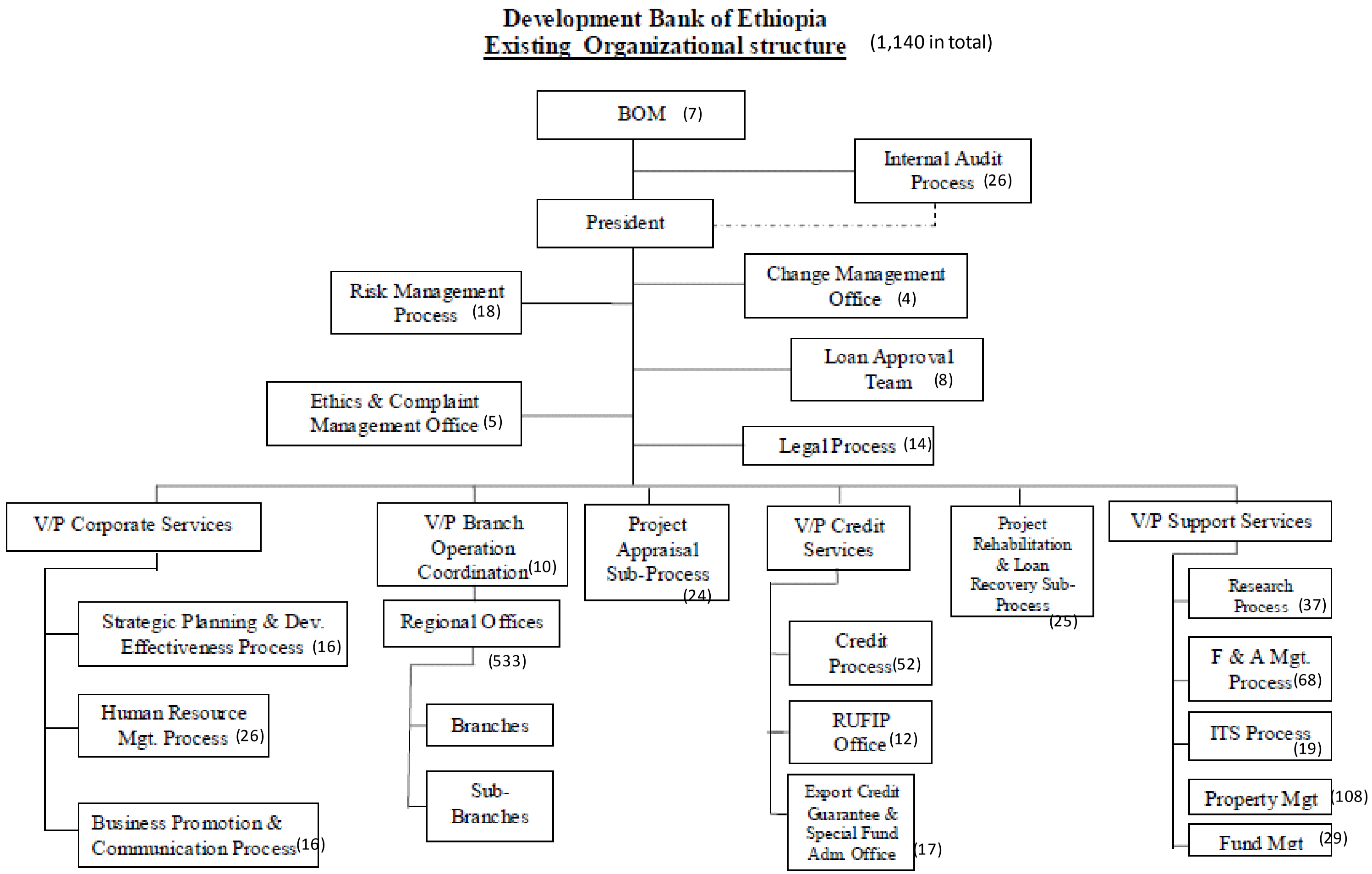
3-7-1. Organizational structure

Table 3-14 illustrates the current organizational structure of the DBE, with the number of employees in each department. A Board of Management (BOM), consisting of seven senior government officials, is the highest decision-making body of the DBE, and is responsible for issuing major policies of the Bank, approval of its strategic and operational plans, and the close and regular monitoring of the Bank's operations. The president attends the regular meetings of the BOM as a non-voting member.

The Executive Management Committee (EMC), consisting of the president and four vice presidents, is responsible for the operations of the Bank. The day-to-day operational activities are managed by the Management Committee, comprised of 26 senior officials, mainly department managers.

The DBE has five regional offices, 12 branches and 20 sub-branches. Loans up to ETB 15 million are approved at the branch level, and loans more than ETB 15 million are decided at the headquarters. Sub-branches are mainly engaged in loan collection activities, co-working with the Project Rehabilitation & Loan Recovery Department, and do not have a credit approval function. The number of employees at a typical regional office is 20-30, at a branch office is 15-20, and at a sub-branch is around 10.

Table 3-14 Organizational Structure of DBE



Source: DBE.

Table 3-15 illustrates the number of DBE employees, which has been increasing gradually in recent years.

Table 3-15 Number of DBE employees

	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Professional and high level supervisor	353	415	426	469	471	541
Semi professional, administrative and clerical	191	192	188	179	165	174
Technical and skilled	71	77	76	72	75	78
Manual and custodian	215	216	209	214	212	217
Total	830	900	899	934	923	1,010

	As of today
BA, BSc, BEduc	625
MA, MSc	46
PhD	1
Diploma	182
Certificate	286
Total	1,140

Sources: DBE's Annual Reports, etc.

According to a human resources manager, the retention rate is around 95%, which is considered a healthy situation. The DBE recruits mainly university graduates who major in economics, business administration, accounting, and so forth as new professionals, and sometimes hires professionals with specific expertise in such fields as technical engineering. Facing expansion of its businesses, the DBE has recently been recruiting around 100 new employees per year. Those who quit jobs at the DBE tend to look for opportunities with higher salaries at private companies, including private commercial banks, or to start their own business. The DBE and the other two state-owned banks are facing similar challenges in keeping capable professionals. These state-owned banks are sometimes regarded as a "training center" by private commercial banks.

3-7-2. Profile of management

(a) Executive management members

5 Executive management members have long and wide-ranging experience in banking business; and two are ex-CBE and one is ex-NBE. All five members were appointed during 2008-2009, when the DBE was going through a management restructuring process.

Mr. Esayas Bahre (48) has been the DBE's president since December 2008. He is an ex-CBE banker and was vice president of CBE before taking the current position. He has an MA in banking and finance from the University of Walse and a BA in management and public administration from Addis Ababa University.

Mr. Genene Ruga (46), VP of corporate services, was promoted to this position in July 2008. He has worked for the DBE for more than 26 years and had been a branch manager in various branches. He has an MA in business administration from Indira Gandhi National Open University and a BSc in agricultural economics from Alemaya University of Agriculture.

Mr. Tadesse Hatiya (40), VP of credit services, has been in this position since December 2009. He is an ex-CBE banker, where he held positions such as credit appraisal manager and branch manager. He has a BA in management and public administration from Addis Ababa University.

Mr. Girma Workie (46), VP of support services, was promoted to this position in July 2008. He has worked for the DBE for more than 22 years and has served as branch manager of various branches. He has a BA in accounting.

Mr. Tiruneh Mitafa (56), VP of branch operation coordination, has been in this position since December 2009. He is an ex-NBE banker and acquired much experience at HR-related departments at the NBE. He has an MA in human resource development from the University of Manchester and an MA in management from Addis Ababa University.

(b) Board of Management

There are seven members of the DBE's Board of Management , and all seven are senior government officials and were appointed by the government.

The BOM's roles and responsibilities are (1) to approve credit policy, loan portfolio exposure limit and loan pricing, (2) to oversee the implementation of the credit policy and the overall credit management of the Bank, and (3) to provide business target and priority directions, so that the Bank can plan its credit process accordingly. The BOM is not involved in credit decisions on individual projects.

The chairman of the board, Mr. Melaku Fanta, is/was director general of the Ethiopian Revenues and Customs Authority, with the rank of a minister. According to recent news, in May 2013 he was arrested by the Ethiopian Anti-Corruption Commission for suspected corruption. This arrest is not related to the DBE's business. Replacement of the BOM chairman has not been decided yet.

Mr. Abdulaziz Mohammed is vice president of Oromiya, a regional position of the national government.

Mr. Sileshi Lemma is director general of the Textile and Leather Industry Development Center of Ethiopia.

Mr. Ahmed Hamoza is director of administration and finance of the Information Network Security Agency.

Mr. Haileselassie Teki'e is director general of the Ethiopian Horticulture Development Agency.

Mr. Ayana Zewedie is finance and trade policy and plan execution supervisor state minister.

Mr. Wasihun Abate is head of the Legal Department in the Ministry of Finance and Economic Development.

None of the seven BOM members have experience in the banking industry, and we believe there should be a board member with banking experience and knowledge in order for the BOM to conduct proper decision making on important issues for effective and sound banking operations by the DBE.

3-7-3. Loan approval process

There are three steps in DBE's loan approval process: (1) due diligence by the Credit Process Department, (2) project appraisal by the Project Appraisal Department and (3) the final loan approval by the Loan Approval Team. As the first step, the Credit Process Department, also referred to as the Customer Relationship Management Department, is responsible for general screening of loan applications, evaluation of documents submitted by applicants, due diligence assessment and provision of technical advice. As the second step, the Project Appraisal Department, which organizes a team of experts including technical engineers in accordance with the nature of projects, undertakes marketing, financial, management and technical appraisal of projects and examines carefully the viability and economic soundness of projects. Finally, as the third step, the Loan Approval Team, consisting of five senior members with profound banking experiences, deliberates and makes the final decision on the loan proposal submitted by the Credit Process Department. According to managers of these three departments, each department level has previously rejected various cases but such cases are relatively rare once projects go through due diligence by the Credit Process Department.

Samples of due diligence reports by the Credit Process Department and project appraisal reports by the Project Appraisal Department were submitted to evaluate the DBE's project analysis measures and capabilities. The sample cases are of Saygin-BM Technology Group LLC (cable production), Hiwot Agricultural Mechanization plc (cotton farm), and Velocity Dairy plc (milk and juice processing plant).

Table 3-16 Overview of sample projects

	Saygin-BM Technology Group LLC	Hiwet Agricultural Mechanization Plc	Velocity Dairly Plc
Appraised Timing	Dec-11	Jan-11	Sep-12
Sponsor Nationality	Turkey	Local (EFFORT)	Holland
Loan (mm Birr)	1,378	184	496
Business	Production of communication and energy cables	Cotton farm	Milk processing
Target	Export to COMESA countries, local	Supply to a sister textile company (ultimately for export)	Local market
New industry to Ethiopia?	Yes	No	No

Source: DBE

Out of the three projects that we reviewed, Sayigi-BM Technology Group is cited by many DBE officers as "typical example of very difficult project to appraise" because fo the following reasons.

a) Cable production do not exist in Ethiopia

In order to gain industry expertise, DBE asked the client to dispatch three engineers to Ethiopia to provide lectures and send a team of DBE officers to Turkey to gain exposures and site visits to the client existing factories. While DBE acknowledged the risk of dependence on the client with the conflict of interests, there was no other resource to turn to.

b) Client was a foreign corporation and new to DBE

DBE had a limited source of information to carry out Know Your Client duties, only through reference to banks in Turkey.

c) The size of the project was very large

On top of the above, a large scale of the project posed many uncertainties over the implementation of the projects.

The due diligence report covers the borrower's legal status, the general manager's and project manager's capacity (educational background, experience, etc) and the shareholders' business track record. It also covers the credit status of shareholders and the borrower, with other banks; the breakdown of investment costs, including a list of major machineries; identified risk areas, including management; marketing strategy; and technical issues. Based on findings of these analysis points and collateral strengths, projects are rated from AAA to D based on the DBE's Credit Risk Measurement Matrix. Projects with lower ratings will be examined more carefully by the Project Appraisal Department and the Loan Approval Team in the loan approval process and will be monitored more closely by the Credit Process Department in its follow-up process.

Table 3-17 Sample of contents of due diligence report

Pre-Credit risk measurement

	lowest	highest
A Business and/or applicant strengths		
1 Character of the applicant		
Settlement of loans borrowed	0	150
The applicant's tax settlement history with tax authorities	0	100
Number of times the applicant has been deliquent	0	100
The applicant's social interaction	0	50
Subtotal	0	400
2 Project management risk		
Experience of the key managers of the project	0	80
Educational background of the key managers of the project	25	100
Technical knowledge of the key managers of the project	0	120
Subtotal	25	300
3 Capital adequacy risk		
Gearing / leverage (=equity contributuion of the applicant)	0	120
Level of fixed vs variable costs	0	80
Sources of capital	0	50
Capacity to raise capital	0	50
Subtotal	0	300
4 Market risk		
Demand and supply gap for the products and/or services of the project	0	50
Susceptibility to foreign currency shortage and exchange rate fluctuation	0	40
Susceptibility to change in price of raw materials	0	40
Diversification of customers (consumers or retailers or wholesalers), potential export	0	40
Diversification of suppliers/raw material providers	0	40
Vulnerability to product substitutes	0	40
Subtotal	0	250
5 Business risk		
Vulnerability to changes in technology	0	100
Socio-economic benefits	0	50
Competitor capacity		
Barriers to entry into the industry	0	10
Competitive rivalry in the industry	0	10
Product diversity or innovation prospects of the project	0	10
Profit margin in the industry	0	30
Competitive and comparative advantages of the project	0	20
Meeting quality control standards	0	20
Subtotal	0	250

6 Summary of business / applicant

Points scored / assigned points =

- Prime (85-100%)
- Acceptable (75-85%)
- Watch list (65-75%)
- Doubtful (50-65%)
- Loss (below 50%)

B Collateral strength

Collateral value / loan amount

- (a) Strongly secured (>150%)
- (b) Fully secured (125-150%)
- (c) Partially secured with a moderate risk (100-125%)
- (d) Partially secured with a high risk (75-100%)
- (e) Poorly secured with a very high risk (<75%)

C Credit risk measurement matrix

Collateral	Prime	Acceptable	Watch list	Doubtful	Loss
(a)	AAA	AA	A	B	B
(b)	AA	A	BBB	B	CCC
(c)	A	BBB	BB	CCC	CC
(d)	BBB	BB	CCC	CC	C
(e)	BB	CCC	CCC	C	D

AAA	Extremely low risk
AA	Very low risk
A	Lower risk
BBB	Acceptable risk
BB	Medium risk
B, CCC, CC, C and D	High risk

D Conclusion and recommendations

- ☑ role in the country's economic development (GTP)
- ☑ technology transfer
- ☑ resource and capability of the project company
- ☑ market potential of the products of the project
- ☑ risk level of the project

Sources: The DBE's sample due diligence assessment reports.

Each project appraisal report is prepared by an appraisal team of 5 to 10 professionals with different expertise. It covers various aspects of projects, including marketability, technical issues, managers' experience and capability, financial projection, and so on. The financial study includes details of financial requirements—financial analysis, including profitability (net profit), liquidity (net cash balance) and financial internal rate of return; sensitivity analysis; and net present value, based on projected income statements, cash flows and balance sheets. Also, the report examines socio-economic benefits, including employment creation, income tax, foreign currency generation, and technology transfer.

Table 3-18 Sample of contents of project appraisal report

I	**Summary sheet**
1.1.	Background information
1.2.	Marketing strategy of the project
1.3.	Appropriateness of plant layout and technology
1.4.	Management
1.4.1	Project implementation management
1.4.2	Management after implementation
1.5.	Financial analysis summary
1.5.1	The project's investment
1.5.2	Source of finance
1.5.3	Expected operational financial results
1.5.4	Sensitivity (after tax)
1.5.5	Risk class
II	**Background information**
2.1.	The applicant
2.2.	The project
2.3.	Brief history of the company
2.4.	Capital structure of the company
2.5.	Credit information
2.5.1	Credit information with DBE
2.5.2	Other financial institutions
2.5.3	Shareholders' credit history
2.5.4	Shareholders' business track record
2.6.	The loan
III	**Key success and risk factors**
3.1.	Key success factors
3.2.	Risk factors
3.3.	Risk mitigation mechanisms
3.4.	SWOT analysis of the project
IV	**Market study**
4.1.	Product description
4.2.	Global market for power and communication cable
4.2.1	General overview
4.2.2	World power and communication cable export
4.2.3	World power and communication cable import
4.3.	Ethiopian communication and power cables market
4.3.1	Demand for communications cables
4.3.2	Demand for power cable
4.3.3	Supply of communication cables
4.3.4	Supply of power cable
4.3.5	Price and price trend
4.3.6	Marketing strategy
V	**Technical aspect of the project**
5.1.	Project location and accessibility
5.2.	Building and construction
5.3.	Machinery and equipment
5.3.1	Existing machinery and equipment
5.3.2	New machinery and equipment
5.4.	Vehicles
5.5.	Office furniture and equipment
5.6.	Utilities and infrastructure
5.6.1	Water supply
5.6.2	Electric power supply
5.6.3	Other infrastructural facilities
5.6.4	Computerization, networking and security network
5.7.	Quaility assurance certificates
5.8.	Raw material & other consumables
5.8.1	Raw material for fiber optics
5.8.2	Raw material for communication cable
5.8.3	Raw material for power cable
5.9.	Product mix, production capacity and production process
5.9.1	Product mix
5.9.2	Production capacity
5.9.3	Production process
5.9.3.1	Manufacturing of optic fibers
5.9.3.2	Manufacturing of fiber optic cables
5.9.3.3	Manufacturing of copper communication cables
5.9.3.4	Copper and aluminum cable manufacturing process
5.9.4	Packing materials
5.10.	Environmental impact consideration
5.11.	Implementation schedule
VI	**Organization, management and manpower**
6.1.	Organizational structure
6.2.	Management
6.2.1	Project implementation
6.2.2	Management after operation
6.3.	Manpower requirement
6.4.	Manpower training
VII	**Financial study**
7.1.	Existing investment costs
7.2.	Planned investment
7.3.	Summary of total investment
7.4.	Financial results
7.5.	Socio-economic benefits
VIII	**Conculsions and recommendations**
8.1.	Conclusion
8.2.	Recommendations
8.3.	Terms and conditions

Source: The DBE's sample project appraisal report.

In short, we think that both the format of the DBE's internal project/credit analysis and the check-and-balance system built in its loan approval process are appropriate. However, in our opinion, credit analysis of the borrower or the project sponsor should be conducted in more detail, especially in terms of financial performance and current financial conditions, because financial capability will be a very important factor if a project faces some unexpected difficulty. There are cases in which a project sponsor is a foreign company and it may be difficult for the DBE to obtain sufficient information on the foreign entity and analyze its financial condition. However, taking into account that Ethiopia is trying to increase the number of FDI projects and such projects tend to be large-scale and have potentially huge impact on the economy, future capacity development in this field will be very important.

3-7-4. HR-related issues

According to the HR Department, in addition to continuous efforts in capacity development of employees, current important issues are as follows: preparing smooth succession plans at the senior management level, implementing the balanced scorecard (BSC) program more effectively, and maintaining the retention rate at a high level.

3-7-5. Training programs and needs

The DBE has in-house training programs at different management levels and also participates in outside programs, including those offered by the training institute of the Ethiopian banking industry and foreign financial institutions. This training institute was established by state-owned banks (the NBE, CBE, CBB and DBE), and all banks in Ethiopia can participate in its programs. According to the DBE's HR Department, many programs of the institute are prepared for commercial banking businesses, and hence, do not always meet the needs of the DBE, which specializes in project finance.

As for programs by foreign partners, China Development Bank (CDB), Korean Development Bank (KDB), Development Bank of Turkey (KALKINMA) and National Bank for Agriculture and Rural Development of India (NABARD) now provide training, typically one-week "exposure visit" programs for senior professionals of the DBE. Details of overseas training programs the DBE participated in during the years 2010-2013 are shown in Appendix.

Table 3-19 (1) Overview of training programs overseas

	Overview of a typical program (the year program starts)	Typical length of program	Program cost burden by
CDB	Development finance seminar in China (2010-)	1 week	China
KDB	Exposure visit to Korea (2013-) KDB's program is shown below.	1 week	DBE
KALKINMA	Exposure visit to Turkey, Workshops in Turkey and Ethiopia (2013) (http://english.kalkinma.com.tr/tkb_ethiopia_2013.aspx) Machinery evaluation (2009-)	1 week	Turkey
NABARD	Core banking, Finance management, Micro-finance, Banking practice, Project appraisal, Credit risk management, Management & leadership, Renewable energy, Horticulture, etc. (2011-)	1-3 weeks	DBE

Table 3-19 (2) Overview of KDB's exposure visit program

Date	Time	Topic	Remark
4.1 (Mon)	09:30～09:50	• Greetings, Welcome Speech	• Executive Director
	10:00～11:00	• Overview of KDB - Introduction	• IR team
	11:10～11:40	• Meeting with the Chairman(CEO)	
	12:00～13:30	• Welcoming Luncheon	• Executive Director Int'l Banking Div.
	13:45～15:00	• KDB Organizational Structures - Relations with Government	• Planning Dept.
	15:30～17:00	• Corporate Banking -Overview of the function	• Corporate Banking Dept 1.
4.2 (Tue)	09:00～10:30	• Credit Review -Overview	• Credit Review Dept.
	10:45～11:50	• Project finance (Energy, Plants) -Overview	• Project Finance Dept.2
	12:00～13:30	• Luncheon	• General Manager Project Finance Dept.2
	13:45～15:00	• Project finance (Infrastructure) -Overview	• Project Finance Dept.1
	15:30～17:00	• Risk Management -Overview	• Risk Management Dept.
4.3 (Wed)	09:00～10:30	• International Banking -Funding	• International Banking Dept.
	10:45～11:50	• Trade Finance -Overview	• Trade Finance Dept.
	12:00～13:30	• Farewell Luncheon	• General Manager, Int'l Banking Dept.
	13:45～14:45	• Career Development Program(CDP) for Managers	• Personnel Dept.
	14:55～16:00	• Ethical Standards for Employees	• Compliance Dept.
4.4 (Thur)	Morning	• Site Visit (Hyundai Steel Co.,)	• To Be Determined
	Afternoon	• City Tour	• To Be Determined

Source: The DBE.

The DBE implements “HR Training and Development Needs Assessment” internally every year. In the most recent assessment report in June 2012, the DBE concludes that there is a skills gap in undertaking project-related activities such as project appraisal in priority areas (i.e. agriculture, agro-processing and industrial/manufacturing), project financing, customer handling and service delivery. Also the report emphasizes there is a significant capacity gap with regard to credit policy, credit assessment, financial analysis and credit review processes at the branch office level. Table 3-20 illustrates “recommended training and development needs” of each department based on analysis on performance gaps.

Table 3-20 List of recommended training and development needs by department

Department	Recommended training and development needs
Strategic Planning and Development Effectiveness	● Strategic planning and management ● Recent monitoring and evaluation systems ● Balanced scorecard (BSC) system ● Data organizing and analysis methodology ● Database management ● Data processing software ● Report writing techniques ● Research methodology and sampling techniques ● Performance management (BSC) ● Development planning ● Communication and employee relations ● Planning and budgeting ● Knowledge management ● Conflict management and team development
Human Resource Management	● Competency-based human resource management ● HR policy and strategy design ● Performance management ● Strategic human resource management/development ● Training of trainers (TOT) ● Human resource information system ● Incentive scheme development ● Records management ● Organizational development and change management ● Labor proclamation

	● Labor relations management ● Planning and budgeting ● Negotiation and grievance-handling
Information Technology Systems	● Database management ● Maintenance training ● Banking system ● IT security ● Networking ● Operating systems ● Database ● Professional ethics
Business Promotion and Communication	● Business communication and report writing ● Photography journalism ● ICT applications ● Website development ● Adobe Photoshop / graphic design / desk-top publishing / video editing ● Event organization and management skills ● Strategic negotiation ● Advanced public relations and customer service ● Archive management and documentation ● Digital marketing, promotion and advertising ● Leadership skills development
Finance and Account Management and International Banking	● Customer service delivery ● Banking software ● Domestic banking ● Financial management ● Financial report writing ● Foreign banking ● International trade ● Finance and budget accounting ● Risk management (credit risk, liquidity risk, operational risk, market risk) ● Planning and budget monitoring ● Inland revenue rules and regulations ● Professional ethics

Property Management	• Procurement • Marketing survey • Report and proposal writing • Property management • Store and supplies management • Maintenance and technical training • Basic computer skills • Databases (e.g. Peachtree) • Customer service delivery • Supervisory management • Transformational leadership
Credit Process	• Credit management • Credit policy and procedure • Risk management • Project planning, monitoring and evaluation • Core banking systems related to credit management • Due diligence assessment techniques • Customer sourcing strategy • Customer handling and service delivery • Communication and negotiation skill • Geographical information system • Advance office operation management • Exposure visit to textile, sugar and other factories
Risk Management	• Liquidity risk • Interest rate risk • Foreign exchange risk • Operational risk • Credit risk • Credit analysis and review • Foreign banking operation • Financial management • Basic computer skills • T24 • Knowledge management • Database management • Data organization and analysis techniques

	• Professional ethics • Report writing
Project Rehabilitation and Loan Recovery	• Project management • Training on the Bank's rehabilitation policy • Government and the Bank's foreclosure and disposal policy • Financial analysis • Credit analysis and review • Data organization and analysis • Data analysis software • Project financing • Strategic negotiation • Communication • Knowledge management • Advanced operation management
Project Appraisal	• Project appraisal • Project financing • Dairy farm and process • Irrigation and farm mechanization • Textiles • Horticulture • Poultry and processing • Leather and leather products • Core banking • Financial management
Legal	• Database management • Records management • Contract administration and dispute resolution • Training on arbitration, mediation and conciliation • Negotiation skills • Advanced office operation management • Language skills (professional) • Basic computer skills • Contract development • Management development
Research	• Advanced research methodology • Machine lending

	• Designing data-gathering tools • Data organizing and analysis • Statistical application software • GIS software • Report writing and communication • Project planning and appraisal • Team building • Performance management (BSC) • Auto CAD 2D & 3D • Project planning and appraisal • Property valuation techniques • CON MIS software • Experience-sharing and technical training in priority project areas
Internal Audit	• Financial audit • Planning and budget monitoring • Internal auditing (internal control) • Risk management • Performance audit • IT audit • Legal audit • Engineering audit • Financial and audit report writing techniques • Fraud investigation techniques • Core banking • Software for audit work
Export Credit Guarantee and Special Fund Administration	• Project appraisal • Due diligence appraisal • Financial analysis • Project rehabilitation • Database management • Import-export • Trade finance • Legal issues • Renewable energy • Communication skills

	● Negotiation skills
Engineering Services	Civil Engineering Training ● Construction management ● Contract management ● MS-project / primavera ● ETABS ● Structural analysis program (SAP) ● ArchiCAD ● AutoCAD ● Supply-chain management ● Structural analysis ● Project appraisal, M&E ● Site selection and foundation engineering ● Construction machineries and equipment ● Construction law and mitigation on construction disputes ● Tender document preparation and tender evaluation ● Project cost estimation ● Project financial management ● Environmental impact assessment (EIP) Agricultural, Chemical, Electrical, Industrial and Mechanical Engineering ● Program logical control (PLC) system software and hardware ● Valuation of electrical systems and equipment ● Machinery valuation, selection and appraisal ● Valuation and appraisal of irrigation projects ● Asset valuation training ● Industrial production/operations management ● Design and industrial machinery ● Installation of industrial machinery ● Industrial management systems ● Machinery and equipment for textiles, tannery, cement plant, food-processing plant, poultry and the like ● Communication skill ● Supervisory management ● Time management ● Negotiation skills

Source: The DBE's HR Training and Development Needs Assessment (June 2012).

Based on the internal information submitted and our discussions with managers at various departments, the DBE's needs for JICA training are prioritized as follows: (1) credit analysis skills for priority projects, especially in the manufacturing industry, (2) improvement of risk management, including better use of the credit rating system, and (3) leadership/management/succession planning for senior professionals.

3-8. Financial analysis

Financial analysis of the DBE is presented based on the financial information available as of today. Financial statements of 2010/2011 are still under the auditing process, and it should be noted that the numbers of 2010/2011, 2011/2012 and the 9 months of 2012/2013 are provisional.

Total assets of the DBE increased from ETB 4,958 million in 2005/2006 to ETB 25,024 million in 2011/2012, mainly led by increase in loans outstanding (from ETB 3,562 million to ETB 14,042 million during the same period) and investment in Ethiopian Government T-bills (from ETB 89 million to ETB 7,866 million). This increase in assets was mainly funded by NBE bills (from 0 to ETB 12,502 million) and savings bonds (from 0 to ETB 1,992 million). The current balance sheets indicate that a substantial portion of funds from NBE bills is directed to T-bills, rather than to finance private-sector projects, as was noted by the IMF.

Bonds privately issued for the CBE used to be the largest component (ETB 3,665 million in 2009/2010) of mobilized funds in the DBE, but now it has a much smaller share. Among borrowing from international institutions, as of the end of 2009/2010 the African Development Bank had the largest balance (ETB 427 million), followed by the European Investment Bank (ETB 251 million).

With expansion in loan assets, interest earned increased gradually, as did interest expense but to a lesser extent. Net interest income increased from ETB 218 million in 2005/2006 to ETB 681 million in 2011/2012. Also, it should be noted that service charges income was getting larger from 2008/2009, and became one of the important income sources of the DBE. Net profit also increased from ETB 25 million in 2005/2006 to ETB 362 million in 2011/2012, absorbing increases in staff salaries and provisioning for doubtful debts.

Also, the capital adequacy ratio (CAR) must be decreasing substantially, given the increases in loan assets and lack of additional capital injection by the government (although the DBE has not disclosed the CAR in its Annual Reports).

Table 3-21 Balance sheets of DBE

(million birr)	2006	2007	2008	2009	2010	2011	2012	2013 3Q
Current assets								
Cash in hand and with other banks	520	831	584	512	1,446	1,493	1,486	1,433
Debtors and other debit balances	661	590	516	484	621	609	1,437	1,649
Recoverable income tax	2							
	1,183	1,421	1,100	996	2,068	2,102	2,923	3,082
Other assets								
Ethiopian Government bonds/obligations	89	81	254	219	185	1,750	7,866	8,814
Loans	3,562	3,867	4,236	5,128	6,949	11,209	14,042	16,554
Property and equipment	68	67	67	65	61	113	148	178
Deferred tax assets	0	0						
Customers' liabilities under guarantees, a	56	122						
Other assets						52	45	
Assets transferred to other Govt org.	0	0	0	0	0			
	3,775	4,138	4,557	5,412	7,195	13,125	22,101	25,546
Total assets	4,958	5,559	5,658	6,408	9,263	15,227	25,024	28,628
Liabilities								
Current liabilities								
Deposits	637	575	502	512	588	671	623	731
Accounts payable and accrued charges	419	627	523	556	738			
Current maturity of long-term liab	582	666	398	758	879			
Short-term loans	49	49	49	49	49			
L/C payables			62	240	268			
State dividend payable	0							
Taxation	1	5	22	14	17			
	1,688	1,922	1,555	2,129	2,539	671	623	731
Long-term liabilities								
International organizations	189	258	358	593	847	1,019		
Foreign govt	0	0	0	0	0			
Ethiopian Govt	56	60	220	175	145			
Other local funds	1,094	1,326	1,601	1,540	3,692	8,560	3,487	3,167
Deferred tax liability			0	2	2			
NBE bills							12,502	14,946
Savings bond for Grand Renaissance Dam							1,992	3,793
Stabex fund / Managed fund						82	82	80
Provision for doubtful debts						1,435	1,351	1,316
Other						1,262	2,439	1,438
Bank's liabilities under guarantees, accep	56	122						
	1,396	1,766	2,179	2,310	4,687	12,358	21,854	24,740
Total liabilities	3,083	3,689	3,734	4,438	7,226	13,029	22,476	25,471
Capital & reserves								
Paid-up capital	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Profit & loss account	32	19	55	90	116		362	1,145
Legal reserve	24	32	48	60	68	118	120	212
General reserve					33	261	266	
Profit earned under Swiss Stabex Project	20	20	20	20	20	20		
	1,875	1,870	1,923	1,970	2,036	2,198	2,548	3,157
	4,958	5,559	5,658	6,408	9,263	15,227	25,024	28,628
Off balance sheet accounts								
Co-financed loans - total principal		67		67	67			
Co-financed loans - total interest		2		1	1			
Unutilized international loans		1,914		1	1			
Unutilized domestic loans				179	179			
Accrued interest income - inactive loans		619		790	790			
Managed funds approved but not disbursed		169		10	10			
Managed fund payables - principal & interest				161	161			
Commitments on loans				3,473	3,473			
Local guarantee		269						

Sources: The DBE's Annual Reports, etc.

Table 3-22 Profit & loss of DBE

(million birr)	2006	2007	2008	2009	2010	2011	2012	2013 3Q
Revenue								
Interest earned	**306**	**287**	**361**	**370**	**463**	**459**	**1,192**	**941**
Agricultural loans	59	63	118	124	141			
Industrial loans	207	163	162	149	221			
Other loans	37	28	66	67	98			
Miscellaneous	3	32	15	30	3			
Less: interest expenses	**-89**	**-93**	**-94**	**-105**	**-161**	**-332**	**-511**	**-439**
Foreign borrowing Int. loans	9	7	2	9	15			
Local - financial institutions			14	8	4			
Local - government			3					
Domestic loans	22	24						
Time deposits	28	26	19	19	19			
Saving accounts	0	0	0	0	0			
Interest on coupon bonds	29	36	55	69	122			
Net interest income	**218**	**194**	**267**	**265**	**303**	**127**	**681**	**502**
Service charges	5	6	7	30	54	95	125	97
Rental income	8	8	7	7	7			
Buildings rent - Addis Ababa				6	6			
Rent - others				2	1			
Sundry income	9	14	25	34	30	366	108	137
Gain on foreign currency exchange rate fluctua	4	10	17	21		341	25	75
Gain on disposal of fixed assets awaiting sale					27			
Others	5	4	8	13	4	25	83	62
	240	221	306	337	394	588	914	736
Loan risk fund	-3	3	-2					
	236	**224**	**303**	**337**	**394**	**588**	**914**	**736**
Expenses								
Staff emoluments	22	30	41	42	54	61	73	65
Office	7	7	8	8	13			
Audit fees	0	0	0	0	0			
Board fees	0	0	0	0	0			
Provision for doubtful debts	160	130	150	198	250	77	291	
Rent related expenses	3	2	3	3	3			
Sundry	5	6	7	8	14	39	76	59
Depreciation	4	5	5	7	8	11	20	12
	202	**180**	**215**	**266**	**342**	**188**	**460**	**135**
Profit before tax	**34**	**44**	**89**	**71**	**52**	**400**	**454**	**601**
Provision for taxation	-10	-12	-23	-18	-16	-202	-92	-128
Net profit for the year after tax	**25**	**33**	**66**	**53**	**37**	**198**	**362**	**473**

Sources: The DBE's Annual Reports, etc.

Table 3-23 Cash flow statements of DBE

(million birr)	2006	2007	2008	2009	2010	2011	2012
Net cash flows from operating activities	-177	-81	-329	-561	-1,581		-9,178
Net profit for the year before tax	34	44	89	71	52		
Adjustments for:							
Depreciation	7	7	7	10	10		
Provisions	160	130	150	198	250		
Accounts payable written off				-4			
Prior year's adjustments			-0	-6	-0		
Adjustment to property & equipment	0	0	1	9	6		
Adjustment to profit & loss account				-0	-4		
Difference on provisions				-1	0		
Provision no longer required			-0				
Rental income	-8	-8	-7	-7	-7		
Foreign exchange gain not recognized (general reserve)					33		
	160	130	151	198	288		
Increase / decrease in							
Decrease in debtors	-116	57	62	6	-181		
Increase in loans	-303	-421	-507	-1,063	-2,028		
Increase in deposits	-45	-62	-74	10	77		
Increase in accounts payable	92	171	-49	37	182		
Increase in letters of credit payable				178	28		
Increase in taxation				1	0		
	-372	-255	-569	-830	-1,922		
Returns on investment and servicing of finance							
Rent received	7	8	7	7	7		
Collection from govt bonds	8	8	8	35	35		
	15	15	15	42	41		141
Taxation							
Profit tax paid (direct)	-21	-5	-11	-26	-11		
Withholding tax deducted at source			-0	-0	-0		
	-21	-5	-11	-26	-11		0
Capital expenditures & financial investments							
Acquistion of property & equipment	-8	-6	-8	-16	-13		
Bonds received from the Government			-181				
	-8	-6	-189	-16	-13		0
Financing							
Loans received & bonds issued	371	447	696	556	2,669		8,800
Repayment of loans & bonds	-54	-58	-429	-67	-171		-65
Capitalized profit under Swiss Stabex projects written off	0	-0					
	317	388	267	489	2,498		8,735
Net (decrease) in cash & cash equivalents during the year	126	311	-247	-72	934		-302
Beginning balance				584	512		1,793
Net increase				-72	934		-302
Ending balance				512	1,446		1,491

Sources: The DBE's Annual Reports, etc.

According to the DBE, its required minimum CAR is 15%, while that for commercial banks is set at 8%. As a special governmental bank, there are some different accounting policies only used by the DBE based on the approval of the NBE, including loan asset classification method.

Facing a rapid increase in loan assets and decrease in CAR, the DBE currently requests the government to increase the paid-up capital from 1.8 billion to 3.0 billion birr.

3-9. Risk management

Risk management of the DBE is considered to have improved substantially with establishment of the Risk Management Department several years ago. The Compliance & Risk Management Department now has 18 professionals and is responsible for assessing credit risk of particular projects and loan portfolio concentration risk, for analyzing liquidity risk and interest risk, and for monitoring foreign exchange risk and operational risk. The Department prepares risk assessment reports periodically, and reports directly to the president and the Board of Management.

3-9-1. Credit risk

The DBE is managing credit risk both at an individual project level and at the portfolio level.

The DBE sets loan exposure limits at a single borrower level and at the company group level. Loan exposure limit is set at 25% of the total paid-up capital for a single borrower and at 35% for a company group. The DBE also sets a sub-sector limit at 25% of the total portfolio. Any loan beyond these limits shall be presented to the BOM for approval. Also, individual loans which exceed 5% of the total paid-up capital are monitored more intensively and carefully.

The DBE has an internal credit rating system, ranging from AAA to D, which is used for both pre- and post-credit risk assessment. However, the current rating system works incompletely due to insufficient information and lack of capacity of loan officers, and should be improved for further effective risk management.

As Table 3-21 illustrates, the NPL ratio had been decreasing dramatically from its peak at 37% in 2007/2008 to 11.7% in 2009/2010. This decrease was due to several factors, including enhanced loan collection and stronger effort by the Project Rehabilitation & Loan Recovery Department. Also, some of the legacy assets of the past were transferred to the government. Most recently, as of the end of March 2013, the NPL ratio has decreased to 8.5%, according to the DBE, but it is still much higher than the 3.8% average of commercial banks.

Table 3-24 NPL ratios of major banks in Ethiopia

	2005	2006	2007	2008	2009	2010
CBE	27.5	22.5	14.5	5.3	3.7	1.7
Construction and Business Bank	27.8	19.4	17.1	15.6	11.0	6.5
Dashen Bank	6.7	6.2	6.0	5.9	7.3	2.9
Awash International Bank	12.0	9.6	7.4	8.7	5.0	7.0
Bank of Abyssinia	12.4	4.9	10.5	12.9	5.3	4.0
Wegagen Bank	8.4	4.9	5.3	8.4	7.7	3.5
United Bank	8.5	4.2	4.6	4.0	3.8	3.4
Cooperative Bank of Oromia	0.0	0.0	0.2	1.1	2.5	7.6
Nib International Bank	11.2	8.5	5.6	6.7	14.1	7.4
Lion International Bank	NA	NA	0.0	0.1	0.3	6.5
Development Bank of Ethiopia	31.4	35.5	36.3	37.0	22.7	11.7
Mean	16.2	11.6	9.8	9.6	7.6	5.7
Standard deviation	9.7	10.9	10.3	10.2	6.7	2.9

Source: WN Geletta "Determinants of Non-Performing Loans: The case of Ethiopian Banks" (January 2012).

There is substantial concentration risk in the DBE's current loan portfolio. As shown in Table 3-25, the top 10 borrowers occupy more than 50% of the total loans outstanding, and the top 20 have 70%. It should be noted that part of loans to companies shaded yellow in the table are classified as NPLs based on the DBE's recent Loan Portfolio Concentration Report. Credit risk of group companies should be addressed, since it is assumed that there are related companies among these large customers.

As you can see from the "note" section of Table 3-25, top ten clients are consisted by one public company, four Turkish companies one microfinance institution and four private companies, two of which belong to EFFORT. Turkish companies are major sponsors for many of large projects that DBE supports. Within Ethiopian borrowers, EFFORT is one of the largest clients groups of DBE with six ongoing projects.

Table 3-25 DBE's largest loan customers

	Company name	Total loan portfolio including commitment balance	% of the total	Accumu-lated %	Note
1	Tendaho Sugar Factory	2,038	12.5%	12.5%	Public, Finance from India
2	Ayka Addis Textile and Investment	1,890	11.6%	24.1%	Turkish
3	National Cement Share Company	1,553	9.5%	33.6%	Private
4	Saygin-BM Cable Production	1,446	8.9%	42.5%	Turkish
5	Messebo Building Material Production	1,341	8.2%	50.7%	EFFORT
6	Almeda Textile Factory S.C.	728	4.5%	55.2%	EFFORT, Doubtful
7	Else Addis Industrial Development PLC	724	4.4%	59.6%	Turkish
8	Derba MIDROC Cement PLC	648	4.0%	63.6%	Finance from EIB (Euro29mm)
9	MNS Manufacturing PLC	632	3.9%	67.5%	Turkish
10	Amhara Credit and Saving Institution	583	3.6%	71.0%	Microfinance
11	Etur Textile PLC	540	3.3%	74.3%	Turkish
12	Addis Pharmaceuticals S.C	507	3.1%	77.5%	EFFORT
13	Dedebit Credit and Saving Institution	419	2.6%	80.0%	Microfinance
14	Gonder Malt Factory PLC	366	2.2%	82.3%	ANDM
15	Oromia Credit and Saving Share Company	365	2.2%	84.5%	Microfinance
16	Nuredin Abduletif Pasta	321	2.0%	86.5%	
17	Kebir Enterprise PLC	328	2.0%	88.5%	Doubtful
18	Adama Development PLC	221	1.4%	89.8%	Sub Standard
19	Ayenew Degu Gersil	206	1.3%	91.1%	Sub Standard
20	Hiwot Agricultural 32	192	1.2%	92.3%	EFFORT
21	Tana Flora PLC	184	1.1%	93.4%	
22	Sheba Leather Industry PLC	182	1.1%	94.5%	EFFORT
23	Ethiopian Shipping and Logistics Services	182	1.1%	95.6%	
24	Yemiru Nega Dembel	147	0.9%	96.5%	
25	Dashen Brewery	129	0.8%	97.3%	ANDM
26	Ambrossia PLC	123	0.8%	98.1%	
27	Nas Food Dire Dewa Textile	112	0.7%	98.8%	Public, Loss
28	Alem Fitsum Plastic and PVC Profile	102	0.6%	99.4%	
29	Shino-Ethiop Associate Africa PLC	97	0.6%	100.0%	Indian
Subtotal		16,306	76.3%		
Total		21,357	100.0%		

Source: The DBE's Loan Portfolio Concentration Report (April 2013).

In addition, attention should be paid to the DBE's loan classification shown in Table 3-26. The number of days of non-repayment by borrowers is longer than international bank accounting standards (90 days). The NBE accepts this special loan classification measure only for the DBE, due to the fact that the DBE's typical repayment condition (quarterly payment) is different from that of commercial banks (monthly payment). However, the NPL ratio would be higher if the DBE applied international accounting standards.

Table 3-26 Loan classification by DBE as of March 31, 2013

Pass	14,867	< 180 days
Special mention	1,453	< 359 days
Substandard	456	< 539 days
Doubtful	635	< 1,079 days
Loss	427	> 1,080 days
Total	17,838	

Source: The DBE's Loan Portfolio Concentration Report (April 2013).

Lastly, we should note that substantial project completion risk is also involved in the current loan portfolio. Table 3-27 illustrates loans outstanding by project status, and 45% of the total loans are those for projects still under implementation. Hence, it is very important for the DBE to support these projects through to completion and then to generate cash flows through operations as originally planned. 36% of the projects under implementation, or 16% of the total portfolio, were experiencing delays in implementation as of March 2013.

Table 3-27 DBE's loan outstanding by project status as of March 31, 2013

Operational	11,714	55%
Under implementation	9,644	45%
Total	21,358	100%

Source: The DBE's Loan Portfolio Concentration Report (April 2013).

3-9-2. Liquidity risk

There is a substantial maturity gap between assets and liabilities of the DBE. According to the Compliance & Risk Management Department, the average maturity of loans is around 10 years, while the average maturity of liabilities is less than five years. This mismatch could cause liquidity problems—for example, if the Bank is not able to receive refinancing or obtain new funding for some reason.

Table 3-28 is based on the DBE's Liquidity Gap Analysis Report. Notably there will be no issues in the short term, but the DBE could possibly face serious liquidity problem in one to five years (the cumulative gap in five years is expected to amount to ETB 5,521 million). Further analysis should be conducted to prepare for the future liquidity risk.

Table 3-28 DBE's liquidity gap analysis

(million birr)	0-3 month	3-6 month	6 month - 1 yea	1-5 year	Over 5 year	Total
Cash in hand	40					40
Balance with NBE	321					321
Balance due from local institutions	284					284
Balance due from banks abroad	962					962
Local Treasury bills	3,596	650	4,470			8,716
Local Treasury bonds			8	90		98
Foreign government treasury bills and bonds						0
Other investment						0
Loans & Advances performing						0
Provision for doubtful debts						0
Loans & advances performing	457	658	894	6,012	7,155	15,177
Loans & Advances non-performing						0
Provision for doubtful debts						0
Loans & advances non-performing	82	79	81	124	1,198	1,564
Fixed assets						0
Fixed assets					227	227
Accumulated depreciation					-129	-129
Other assets						0
Acquired assets	15	2	2	2	0	21
Interest receivables on loans	182	434	289	172	177	1,255
Suspended interest	-29	-28	-28	-36	-388	-509
Promisory notes	13					13
Staff receivables	2					2
Suspense - loans	-176					-176
Ex-staff receivables	0					0
Rents receivable	1					1
Utilities receivable	0					0
LC difference suspense						0
Miscellaneous receivables	-36					-36
Provision for other receivables	-15					-15
Provision for cash - branches	-0					-0
Other receivables - legal	0					0
Supplies stock / inventory					4	4
Assets under progress					81	81
Inter branch accounts						0
Assets transferred to government						0
Total assets (A)	5,700	1,795	5,717	6,364	8,325	27,900
Off balance sheet assets						0
Guarantee - local (issued)						0
Outward guarantee - foreign						0
Inward guarantee - foreign						0
Letter of credit - export						0
Letter of credit - import	7		1	141	520	670
Documentary collections - outward						0
Documentary collections - inward						0
Clean collections - outward						0
Clean collections - inward						0
Forex deal - spot						0
Loan commitments	1,004	980	1,009	1,022		4,015
Total off balance sheet assets (C)	1,011	980	1,010	1,163	520	4,685
Local currency deposits						0
Time deposits	0		365			365
Demand deposits	352					352
Saving deposits	10					10
Local currency borrowing	850	16	230	14,816	1,456	17,367
Foreign currency deposits						0
Foreign currency borrowing	1				89	89
Other foreign liabilities						0
Other liabilities						0
Savings bonds	34	12	107	3,080	14	3,247
Corporate bonds	4	2			650	656
Payables & accruals	249	249	497			994
Managed funds payable	58					58
Stabex fund	1					1
Other credit balances	0					0
Capital and reserves					2,555	2,555
Total liabilities (B)	1,559	280	1,200	17,895	4,764	25,697
Off balance sheet liabilities						0
Guarantee - local (issued)						0
Outward guarantee - foreign						0
Inward guarantee - foreign						0
Letter of credit - export						0
Letter of credit - import						0
Documentary collections - outward						0
Documentary collections - inward	1					1
Clean collections - outward						0
Clean collections - inward						0
Forex deal - spot						0
Domestic borrowings commitment						0
Foreign borrowings commitment						0
Total off balance sheet liabilities (D)	1	0	0	0	0	1
Net maturity gap as of Dec 31, 2012	3,130	536	3,507	-12,694	3,041	-2,481
Cumulative gap	3,130	3,666	7,173	-5,521	-2,481	-4,961

Source: The DBE's Liquidity Gap Analysis Report (3Q 2013).

3-9-3. Other risks

The DBE needs to deal with other risks, including operational risk and currency risk. For example, operational risk could be involved in its savings bonds business, which is rather new to the DBE, who does not have retail savings accounts. Also, the DBE will face larger currency risk when its borrowers increase their export businesses.

3-10. Corporate governance and transparency

Internal/external auditing system

The Internal Audit Department ensures that all the decisions and operations conducted by all departments of the Bank are as per the policies and guidelines, and reports to the BOM directly. There is also the Ethics & Complaint Management Office, which advises the president on ways of improving governance in the Bank. The Office raises the awareness of staff on anti-corruption policies and regulations.

There are three external supervising bodies for the DBE: the NBE, the Public Financial Enterprises Supervising Agency (PFEA) under the Prime Minister’s Office, and the government’s Audit Office. These internal/external auditing bodies contribute to good corporate governance of the DBE.

In the Updated Report on the Implementation of the PSGRS Mechanism—published by the Association of African Development Finance Institutions (AADFI) in 2012, the DBE’s rating, based on its self-assessment of compliance, has improved from “B” in 2011 to “A+” in 2012, and the DBE now ranks as one of the top six DFIs out of 16 participating institutions.

3-11. Other donors’ support

The DBE is currently receiving technical and financial support from international financial institutions and development financial institutions of other countries.

(1) Training programs overseas (explained earlier)

(2) Financial assistance

The DBE receives funding from overseas, including the International Fund for Agricultural Development (IFAD), African Development Bank (ADF), European Union (EU), European Investment Bank (EIB), Government of Finland and China Development Bank (CDB). These funds are received for financing specific areas, including rural finance, coffee production and SME finance. MOFAD is the counterpart for these international funding, except in the case of finance by CDB.

CDB directly lends USD 25 million (commitment line) to the DBE with a guarantee by the Ethiopian Government. This is a 2-step loan scheme directed toward SMEs in Ethiopia, and internal appraisal reports are submitted to CDB for its final credit approval. Loan maturity is 10 years, including a 3-year grace period, with an interest rate of Libor +2.6%. CDB lending disbursed as of today is around USD 4 million.

3-12. Issues to be considered for the future sustainable operation of DBE

In conclusion, the DBE, as the right arm of the government to finance development projects, has been playing a crucial role in the economic development in Ethiopia. With the new credit policy issued in 2009 and the Business Process Reengineering program implemented since then, the DBE has been making progress in its effective and appropriate financing operations. However, as most managers commented in our discussions, facing various kinds of new and large-scale projects, it will be very important for the DBE to make further and continuous effort in its capacity building. In our opinion, the DBE should prioritize tackling the following managerial issues, with support in the form of capacity-building programs if needed.

- Additional capital injection by the government should be realized soon for the DBE to maintain CAR over the minimum 15%.
- Diversifying funding sources should be considered further to avoid over-dependence on the government's NBE bill program and prepare for further financing needs from private enterprises.
- Asset liability management (ALM) should be strengthened to improve the current substantial maturity gap.
- A new interest rate structure in which interest rates are determined based on the credit risk of borrowers, viability of projects and maturity of loan, should be introduced.
- Financial reports should be prepared more promptly and in accordance with international accounting standards.

- The DBE should be more proactive in setting its priority financing areas for the next mid-term strategic plan starting in 2015.

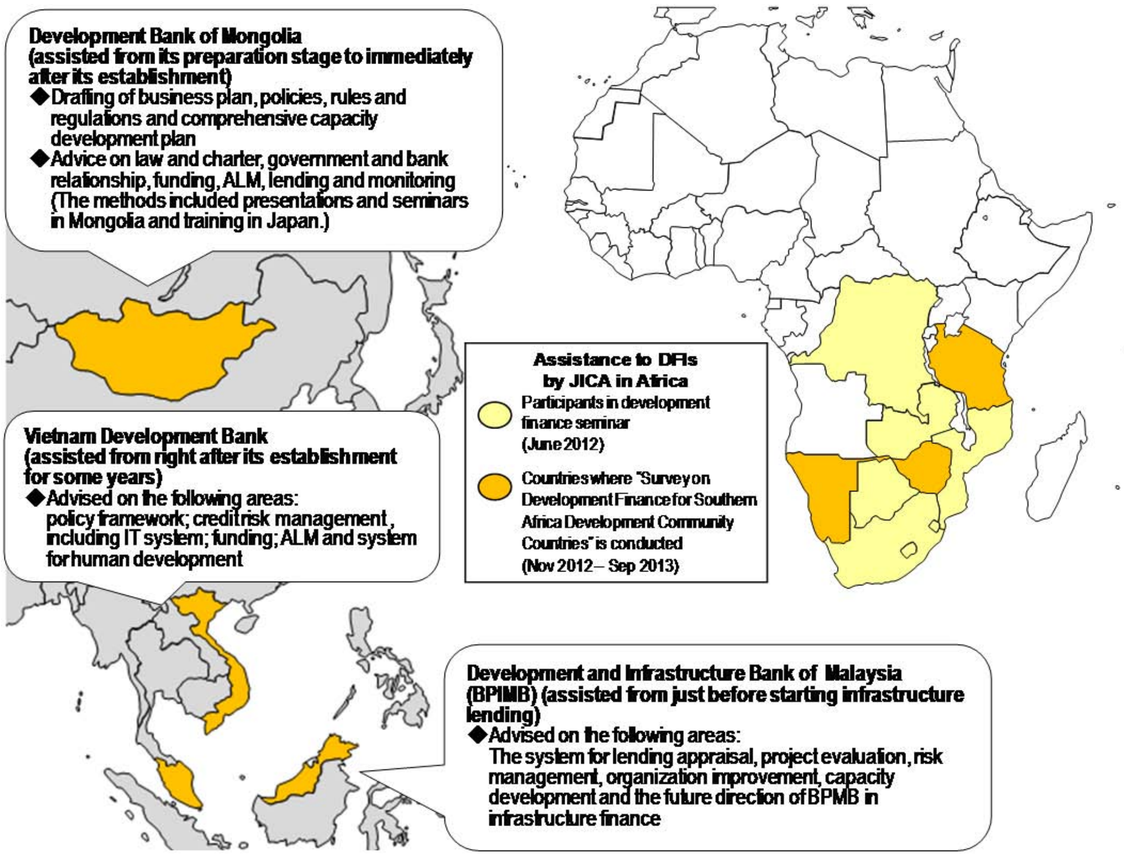
Chapter 4 Possibilities of JICA cooperation in projects

The Ethiopian Government has maintained so-called *development state* policies; thus, the experiences of Japan and other Asian countries could be of some reference.

4-1. Experiences in Asia and Africa

JICA has supported development finance institutions (DFIs) in Asia and Africa. Below is a list of advisory services commissioned by JICA and conducted by the Japan Economic Research Institute (JERI), a research arm of the Development Bank of Japan (DBJ).

Chart 4-1 JICA's support for DFIs in Asia and Africa



Source: JICA/JERI.

A survey has been conducted on DFIs in the Southern African Development Community (SADC) countries. The objectives are to enhance the management of the target DFIs and to promote infrastructure investment in Tanzania, Namibia and Zimbabwe. Based on the management diagnosis, the Development Finance Workshop was held in Tokyo in April 2013. The results of the survey were discussed at the Tokyo International Conference on African Development (TICAD) V.

These institutions are extending loans not only to infrastructure projects but also to SMEs, light industry, agriculture and agribusiness as well. They are eager to diversify their fund sources to finance infrastructure and private sector development.

Table 4-1 Overview of some SADC DFIs (2011)

	Development Bank of Namibia (NAD million)	Infrastructure Development Bank of Zimbabwe (USD million)	Tanzania Investment Bank (current TIB Development Bank) (TZS billion)
Capital	1,265 (approx. USD 140 million)	48	92 (approx. USD 60 million)
Loans outstanding	1,237 (approx. USD 140 million)	31	181 (approx. USD 110 million)
Total assets	1,603 (approx. USD 180 million)	84	306 (approx. USD 190 million)
Number of employees	50	125	178

Source: JICA/JERI.

In comparison to DBE, these DFIs are smaller in total assets and loans outstanding, but maintain high capital adequacy ratios, especially in the case of the Development Bank of Namibia, to cope with the possible risks.

4-2. Experiences in Asia

In the past, some Asian DFIs actually failed. We can learn from their experiences.

For instance, in the Philippines, the Development Bank of the Philippines (DBP) was established in 1958 by reorganizing the Rehabilitation Finance Corporation to accelerate national economic development. DBP expanded its operation with a nationwide branch network and funding procured from both domestic and foreign sources. It delivered to the economy substantial benefits in capital formation and employment generation.

However, DBP made political loans without sufficient appraisal under an authoritarian government, which resulted in accumulation of substantial non-performing loans (NPLs) during the recession in the 1970s and ended up with a catastrophic situation in the 1980s.

DBP was reestablished as a new bank in 1986 by transferring bad loans to the government on the conditions of revision of the credit process and implementation of an intensive training program.

JICA assisted DBP, together with Land Bank, in the 1990s by a study proposing a reorganization plan for the Philippines' governmental financial institutions.

4-3. Experiences in Japan

In Japan, the Reconstruction Finance Bank (RFB) was established in 1947 with an objective to reconstruct Japan's war-damaged economy. It contributed to the objective a great deal by lending huge amounts to crucial industries such as electric power and coal mining.

However, RFB suffered from (1) increasing NPLs that were the result of non-rigorous appraisal (rubber-stamping of high-ranking government officials' decisions, including the detailed loan conditions) and (2) acceleration of inflation, because a majority of its large amount of funding was procured by bonds digested by the central bank. Thus, the RFB was forced to suspend its operation only after one year and a half.

Japan Development Bank (JDB) was established with the lessons from the experience. It was assured that the government would merely designate the priority areas for loans and the Bank would decide each loan based on professional appraisal. This setup kept NPLs at a minimum. Furthermore, JDB was provided huge equity and long-term funds that were secured by the Fiscal Investment and Loan Program (FILP). Thus, JDB could operate without issuing bonds at the time of its establishment.

In the government institutions' streamlining, JDB was merged with another government financial institution to become the Development Bank of Japan (DBJ) in 1999. DBJ was incorporated in 2008, but the Ministry of Finance still holds all the shares. DBJ's capital is about USD 12 billion and total equities are about USD 25 billion as of 2012. Its management has persuaded the government to inject huge amounts of capital to cover the possible risks year after year. As a result of such capital accumulation, risk-taking in new industries and new projects came to be possible.

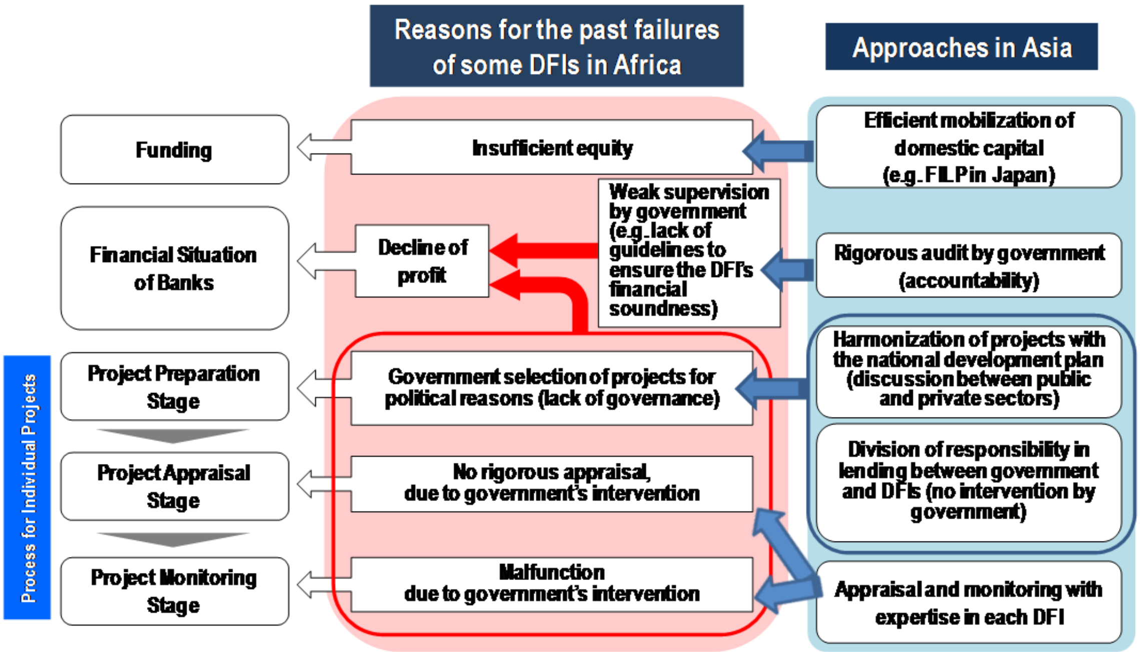
DBJ's total assets are about USD 156 billion, of which loans comprise the majority (USD 136 billion). DBJ also holds treasury bills and corporate bonds, but only for the sake of surplus funds management. DBJ keeps independence from the government in judging the credibility of companies and projects. DBJ can earn sustainable interest revenue and contribute to the treasury.

As to the human resource development, DBJ maintains a job rotation system to expand employees' capacity and prepare for sudden succession. Due to the rewarding job and reasonable salary, employee retention rate is high. Employees are given ample capacity-building opportunities, thereby preparing for future transfers and promotion.

4-4. Lessons learnt

The lessons can be summarized as below.

Chart 4-2 Lessons learnt

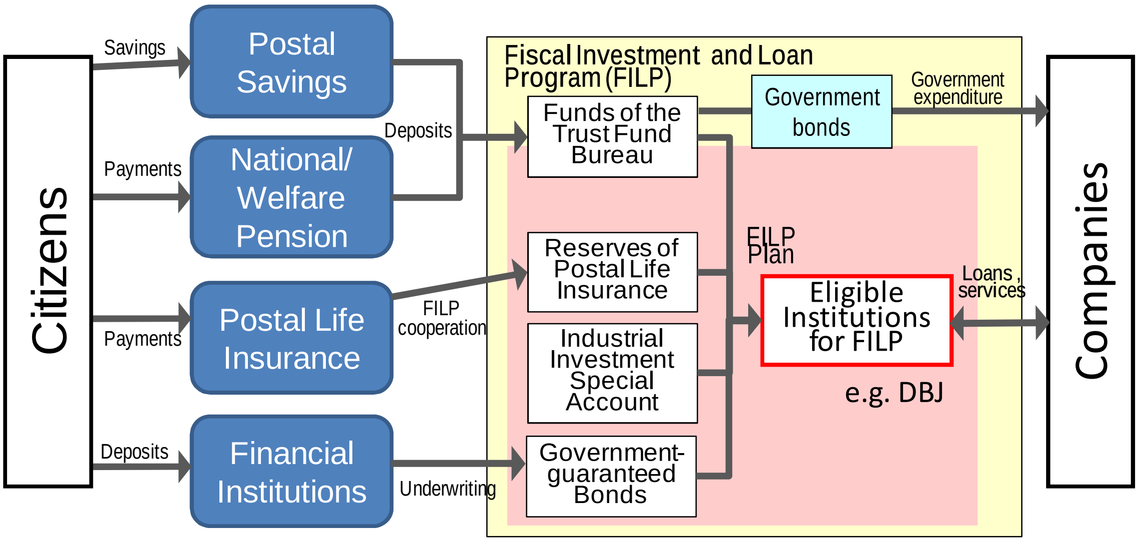


Source: JICA/JERI.

Insufficient equity of African DFIs and weak supervision or too much intervention by the government led to DFIs' profit decline, and some of them became unsustainable. In contrast, learning from the past experiences, Asian DFIs have tried to keep autonomy and ownership of their management.

Japan has utilized its FILP to mobilize domestic savings and payments for pensions and insurances. Such funds are pooled under the program and eligible financial institutions like DBJ utilize them for private sector development.

Chart 4-3 Fiscal Investment and Loan Program in Japan



Source: JICA/JERI.

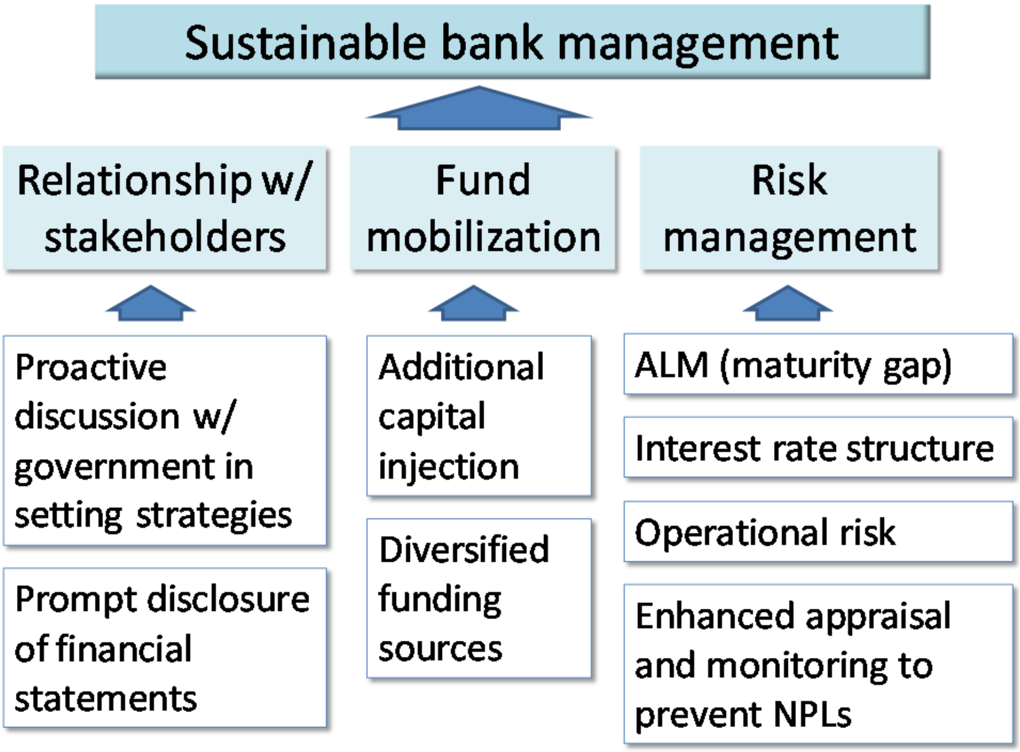
4-5. DBE's case

Ethiopia's financial access is still limited and the financial needs are not yet satisfied. There are many public and private banks, but DBE is the only DFI that provides pioneering private projects in the state's priority areas with long-term finance. DBE bears a crucial role in the implementation of the industrial strategy and private sector development in Ethiopia.

JICA has helped develop *kaizen* (continuous improvement) activities in Ethiopia and assisted the government with formulation of industrial policies through Japan-Ethiopia policy dialogue. As one of the key organizations for implementing industrial policies, DBE has made efforts to reform the management, but further operational improvement might help support the private-sector development in the state.

DBE might want to address the following areas for further improvement.

Chart 4-4 Possible areas for further improvement



(A) Relationship management with stakeholders

- DBE should be more proactive in setting its priority financing areas for the next mid-term strategic plan starting in 2015. Further discussion with the government on the management level would lead to harmonization of projects with the national development plan, and also to division of responsibility in lending between government and DFI (i.e. government's less intervention into bank's final decision).

- Financial reports should be prepared more promptly in accordance with international accounting standards. This would be necessary to report to the related stakeholders and to borrow from overseas donors.

(B) Fund mobilization

- Additional capital injection by the government should be realized soon for DBE to maintain a capital adequacy ratio over the minimum 15%. This should not be a one-time trial but a continuous effort year after year to accumulate sufficient capital.

- Diversifying funding sources should be considered further to avoid over-dependence on the NBE bill and to address the private sector's financing needs. The options would be multi-/bilateral agencies, regional institutions in Africa, overseas governmental banks, and other possible donors. As a reference, DFIs in other African countries have sought funds from pension funds, insurance companies, and foreign banks, be they public or private.

Capacity developments should be conducted for the enhanced fund mobilization planning. This is especially true since DBE is increasing fund mobilization from public through savings bonds, for which DBE has certain discretion over the term, issue size and timing.

(C) Risk management

- Asset liability management (ALM) should be promptly strengthened to improve the current situation, especially in regard to the substantial maturity gap. For instance, if DBE could persuade NBE to prolong NBE bills' repayment period from 5 years to 10 years, it would dramatically improve the term mismatch.

- A new interest rate structure should be introduced whereby interest rates are determined based on credit risk of the borrowers, viability of the projects and maturity of the loans. For instance, introducing at least a two-tier structure (e.g. lower short-term interest rate and higher long-term interest rate) would improve the situation to a certain degree. This would lead to an improved structure for profit generation.

- Due attention should be paid to the operational risks. DBE has been expanding its services to new areas such as international banking to support import of machinery or export of goods by customers, and issuance of saving bonds to mobilize funds from individuals. However, the lack of adequate processes and procedures for the new businesses might lead to major operational problems that cause financial or reputational damage to DBE. Therefore, capacity development should be considered to establish processes and procedures, as well as IT infrastructure, to minimize operational risks.

- Systematic and periodic review of the projects supported by DBE has not yet been established as a standard procedure. Company/project appraisal and monitoring should be further enhanced to minimize NPLs. DBE should keep independence and be able to reject projects that are not *bankable*.

While project appraisal procedures are prepared and duly executed, the aspect of quantitative analysis should be further enhanced. At this point, cash flow projections are created and stress tests are conducted, but only for the calculation of financial internal rate of return (FIRR). In order to better test the financial viability, DBE should employ debt service coverage ratio (DSCR) analysis. Also, at this point, quantitative analysis of the projects' impacts on the country, what is known as economic internal rate of return (EIRR), is not employed in the project screening process. As a developmental institution, DBE should include EIRR in the project appraisal process (in the case where EIRR is high but FIRR is low, some countermeasures like government guarantee or interest rate supplement could be considered).

Overall, capacity development should be conducted for strategy formulation and operational review in order to maximize the developmental impact. The developmental impacts include not only the financial success and foreign currency positions, but also improvement in the country's employment, income distribution, environment and other socio-economic issues. Based on the national policies, DBE needs to come up with a business plan by which it can best serve for the development of the country.

However, DBE is in a difficult position, because the new projects are often first-ever cases in Ethiopia. Thus, it is quite difficult to analyze the new industry, as there are no databases, industry experts or other industrial information in the state.

Examples of possible programs to address such issues might include

a. On-site seminars or workshops with experts
b. Participation in domestic/overseas seminars/workshops, hosted by multilateral agencies or DFI associations
c. Knowledge sharing arrangement with DFIs with similar domestic financial conditions and arrangements with government.

If Japanese consultation is to address these issues, a single long-term expert would not be able to do so sufficiently. Rather, several experts could be sent to Ethiopia, and they could present the DBE management with proposals on possible solutions for the various issues described above. Such solutions might include (a) lectures on managerial issues (relationship with the government and ministries, division of labor with the government, fund mobilization), (b) seminars to disseminate the techniques on risk management, appraisal and monitoring and (c) workshops to enhance knowledge on strategic industries.

Furthermore, DBE seeks exposure to other countries' experiences. If its officials could be invited to Japan, they could learn from Japan's experiences and knowledge in organizational management, human resource development, work culture, continuous improvement, etc.

Taking an example in fund mobilization and ALM, a possible program might be something like the outline below.

Table 4-2 Fund mobilization and ALM program (sample)

1. Analyze existing activities for fund mobilization and ALM
- Review and analyze overall activities for fund mobilization and ALM in Ethiopia
- Analyze the DBE's existing activities for fund mobilization and ALM, and consult on DBE issues
2. Conduct training programs for DBE on fund mobilization and ALM, based on the results of the analysis of current DBE activities and relevant Japanese experiences
- Plan training contents and curriculums on fund mobilization and ALM with DBE
- Deliver seminars on fund mobilization and ALM, and introduce the experiences and case studies of Japan
3. Discuss the future action plans with DBE
- Discuss the future action plans with DBE

All these improvement measures would lead to more sustainable management of DBE.

Postscript

On inquiry, a new fact has come to light in the final stage of the field survey: DBE is going to be provided comprehensive capacity-building in credit process, risk management, treasury/fund mobilization, IT/management information system and human resource development (including succession planning (for employees' sudden retirement), as per the request of DBE), as a condition for receiving a line of credit from the World Bank under the Women Entrepreneurship Development Project.

Capacity development shall be carried out under the ongoing Private Enterprise Program for Ethiopia (PEPE) by the Department for International Development (DFID), with the training budget of USD 3 million provided by the World Bank. The capacity development budget is to be shared with eight microfinance institutions, but an exclusive institutional capacity building will be conducted for DBE.

DBE's top management had authorized this project, and the consultants are working with team members in DBE until September 2014, while some part of PEPE is expected to be continued until 2018/19.

The World Bank had started the research into DBE in 2011, and had identified the scope of institutional capacity improvement (loan process, risk management, IT, human resource development, etc.) in the report dated May 2012, which had been shared with DBE.

Since the scope of capacity building had become wider than expected by the request from DBE's top management, PEPE experts said they would welcome the support from JICA on specific subjects.

Below is a comparison of the scope of possible capacity building.

Table 4-3　　　Scope of possible capacity building

	WB-DFID	JICA
Policy, strategy		DFIs' strategies (relationship with government, governance, industrial development policy)
Lending	Loan process (rating, maximum loan-size review)	Enhanced appraisal and monitoring to prevent NPLs
Funding	Treasury, fund mobilization	Additional capital injection, further funding diversification
ALM	Risk management, operational risk assessment, internal audit system, top management education in ALM, etc.	ALM (maturity gap), interest rate structure, operational risk
IT	Banking system, management information system	
HRD	Organizational management (succession planning), capacity development	(Institutional capacity development)

Both sides identified similar issues and many of them tend to overlap, but policy and strategy issues are not covered by the World Bank-DFID. JICA might be able to address typical issues like relationship with the government, corporate governance, industrial development policy, etc., if DBE wishes to be done so.

In such a case, for instance, a few consultants could be sent to Ethiopia in order to

(a) study the current situation and issues on DBE's policy/strategy aspects,
(b) identify the capacity building needs in policy/strategy aspects, and
(c) conduct workshops/seminars for DBE officers.

Thus, aid coordination policy should be discussed among the donors.

Appendix

DEVELOPMENT BANK OF ETHIOPIA

List of Foreign Training ,Exposure Visit , Work Assignment & Capacity Development Participants during The Year 2010 to 2013

Sr No	Participants	Training/Exposure Visit	Date	Country	Type of Program
1	Genene Ruga	Advanced Bank Management	13/09/2010 To 17/09/2010	Lisbon	Training
		Core Banking T24	August 20-27,2011	India	Exposure Visit
		BSC	17/03/12-25/3/12	Botswana	Exposure Visit
		Exposure Visit	April ,14 – April,20/2013	Turkey	To facilitate the kick off program for capacity development
2	Girma Workie	Advanced Bank Management	13/09/2010 To 17/09/2010	Lisbon	Training
		Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
		Exposure Visit	April ,14 – April,20/2013	Turkey	To facilitate the kick off program for capacity development
		Finance Management	25/06/12-07/07/12	India	Training
3	Taddesse Hatiya	Advanced Bank Management	13/09/2010 To 17/09/2010	Lisbon	Training
		Project Appraisal, Management & Leadership	May 30-June 10,2011	India	Training
		Exposure Visit on" Micro Finance & Banking Practice	25/12/2010 To 10/01/2011	India	Exposure Visit
		Machinery Evaluation	10/10/12-21/10/12	Turkey	Work Assignment
		Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	
4	Tiruneh Mittafa	Advanced Bank Management	13/09/2010 To 17/09/2010	Lisbon	Training
		Project Appraisal, Management & Leadership	June 20-July 1,2011	India	Training
		Exposure Visit	March,31- April,6/2013	South Korea	Exposure Visit
5	Dereje Awgechew	Machinery Evaluation	June, 2009	Turkey, corlu	Work Assignment
		Machinery Evaluation	October, 2010	Turkey, Adana City	Work Assignment
		Study Tour	31/07/2010 To 14/08/2010	Indonesia	Study Tour
		Machinery Evaluation	15/08/11-24/08/11 (Augest,2011)	Turkey,Corlu City	Work Assignment
		Exposure Visit	March,31- April,6/2013	South Korea	Exposure Visit
6	Seyoum Desta	Machinery Evaluation	10/10/12-21/10/12	Turkey	Work Assignment

7	Yemenzwork Girefe	Advanced Bank Management	13/09/2010 To 17/09/2010	Lisbon	Training
		Meeting	13/11/2012 To 16/2012	Dakar	Meeting
		Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	
8	Getachew Wakie	Advanced Bank Management	13/09/2010 To 17/09/2010	Lisbon	Training
		Core Banking T24	August 20-27, 2011	India	Exposure Visit
		Work Visit	May 10-30,2012	China	Exposure Visit
9	Samuel Taddesse	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
10	Yohannes Belachew	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
		Machinery Evaluation	February ,2011	Turkey, Istanbul	Work Assignment
		Trade Finance	April 17-27,2012	Germany	Training
11	Teka Yeberah	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
		Assessment	27/09/11-0910/11	Turkey	Work Assignment
12	Millon Denebel	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
13	Berhanu Taye	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
		Exposure Visit	April ,14 – April,20/2013	Turkey	To facilitate the kick off program for capacity development
14	Getachew Mengistu	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
15	Bekabil Berhanu	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
		Machinery Evaluation	15/08/11-24/08/11 (Augest,2011)	Turkey,Corlu City	Work Assignment
		Exposure Visit	March,31-April,6/2013	South Korea	Exposure Visit
16	Mekonenen Feyissa	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
		Exposure Visit	March,31-April,6/2013	South Korea	Exposure Visit
17	Behailu Kasaye(Dr.)	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
18	Tekele Zewede	Exposure Visit on" Micro Finance & Banking Practice	25/12/2010 To 10/01/2011	India	Exposure Visit
19	Getenet Temechew	Exposure Visit on" Micro Finance & Banking Practice	25/12/2010 To 10/01/2011	India	Exposure Visit
		Exposure Visit	April ,14 – April,20/2013	Turkey	To facilitate the kick off program for capacity development
20	Meseret Tilahun	Exposure Visit on" Micro Finance & Banking Practice	25/12/2010 To 10/01/2011	India	Exposure Visit

2

21	Bahiru Haile	Micro Finance	15/07/2010 To 09/08/2010	Turin, Italy	Training
		2nd Annual Project Coordinators/Task Managers Interactive Workshop	06/11/2010 To 13/11/2010	Tunis,Tunisa	Workshop
		Micro Banking	May30-June 10,2011	India	Training
		Project Appraisal, Management & Leadership	May 30-June 10,2011	India	Training
		Private Public Partnership for Development Projects	10/12/12-21/12/12	South Africa	Training
22	Tirfu Adhanom	2nd Annual Project Coordinators/Task Managers Interactive Workshop	06/11/2010 To 13/11/2010		
		Core Banking T24	August 20-27, 2011	India	Exposure Visit
23	Solomon Megerssa	Project Appraisal, Management & Leadership	June 20-July 1,2011	India	Training
		BSC	17/3/12-25/03/12	Botswana	Exposure Visit
		Exposure Visit	April ,14 – April,20/2013	Turkey	To facilitate the kick off program for capacity development
24	Getachew Kebede	Advanced Project Planning, Monitoring & Evaluation	June 13 -24,2011	India	Training
		Bsc	21/11/11-02/12/11	Tanzania	Training
		Exposure Visit	March,31-April,6/2013	South Korea	Exposure Visit
		BSC	17/03/12-25/3/12	Botswana	Exposure Visit
25	Frew Kassa	Advanced Project Planning, Monitoring & Evaluation	June 13 -24,2011	India	Training
		Advanced Project Planning, Monitoring & Evaluation	June 13 -24,2011	India	Training
26	Teshome Alemayehu	Credit Risk Mgt.	June 6-10,2011	India	Training
		Exposure Visit	March,31-April,6/2013	South Korea	Exposure Visit
		Risk Management	08/03/10-13/03/10	South Africa	Training
27	Redwan Bedri	Credit Risk Mgt.	June 6-10,2011	India	Training
		Assessment	27/09/11-0910/11	Turkey	Work Assignment
28	Ketema Damte	Credit Risk Mgt.	June 6-10,2011	India	Training
29	Samson Getachew	Core Banking T24	August 20-27, 2011	India	Exposure Visit
30	Tamiru Kebede	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
31	Tesfa W/kidan	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
32	Samuel Kebede	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
33	Darge Berkessa	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
34	Melesse Taffesu	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
		Exposure Visit on" Micro Finance & Banking Practice	25/12/2010 To 10/01/2011	India	Exposure Visit
35	Samson Assefa	Machinery Evaluation	June, 2009	Turkey, corlu	Work Assignment
36	Amanuel W/Tensay	Machinery Evaluation	June, 2009	Turkey, corlu	Work Assignment
37	Fantahun Melese	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit

38	Assefa Getahun	Advanced Credit Management	Sept.13-17,2010	Portugal	Training
39	Gedion Mekonen	Advanced Credit Management	Sept.13-17,2010	Portugal	Training
40	Habtamu Desalegen	Advanced Credit Management	Sept.13-17,2010	Portugal	Training
41	Tefera Befekadu	Advanced Credit Management	Sept.13-17,2010	Portugal	Training
42	Dereje Daba	Machinery Evaluation	October, 2010	Turkey, Adana City	Work Assignment
		Assessment	27/09/11-0910/11	Turkey	Work Assignment
43	Workash Chema	Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
44	Webayehu Tena	Monitoring & Evaluation of Donor Funded Projects	04/09/2010 To 26/09/2010	Swaziland	Training
		Exposure Visit on" Micro Finance & Banking Practice	25/12/2010 To 10/01/2011	India	Exposure Visit
		Project Appraisal, Management & Leadership	June 20-July 1,2011	India	Training
		Methods and tools for project monitoring and evaluation	19/11/12-30/11/12	South Africa	Training
45	Samson Alemayheu	Program Planning ,Monitoring & Evaluation	18/09/2010 To 10/10/2010	Swaziland	Training
		Micro Banking	May30-June 10,2011	India	Training
		Project Appraisal, Management & Leadership	June 20-July 1,2011	India	Training
		Financial Management and Auditing of Donor-funded projects	16/11/12-02/12/12	South Africa	Training
46	Mamo Bekele	Program Planning ,Monitoring & Evaluation	18/09/2010 To 10/10/2010	Swaziland	Training
		Micro Banking	May30-June 10,2011	India	Training
		Project Apprisal, Managemet & Leadership	May 30-June 10,2011	India	Training
		Sustainable Development	19/11/12-30/11/12	South Africa	Training
47	Adamu Legesse	Micro Banking	May30-June 10,2011	India	Training
48	Derbie Workalemahu	Micro Banking	May30-June 10,2011	India	Training
49	Fantahun Tilahun	Micro Banking	May30-June 10,2011	India	Training
50	Fistum Tesfahunegne	Micro Banking	May30-June 10,2011	India	Training
51	Misrak Seyoun	Micro Banking	May30-June 10,2011	India	Training
52	Hunegnaw Zegeye	Micro Banking	May30-June 10,2011	India	Training
53	Desta Kebede	Monitoring & Evaluation of Donor Funded Projects	04/09/2010 To 26/09/2010	Swaziland	Training
		Project Appraisal, Management & Leadership	May 30-June 10,2011	India	Training
54	Ahmed Mohammed	Micro Banking	Dec13-24,2010	India	Training
55	Flekech Zewedie	Micro Banking	Dec13-24,2010	India	Training
56	Melese Taffessu	Micro Banking	Dec13-24,2010	India	Training
57	Adissu Bejura	Machinery Evaluation	February ,2011	Turkey, Istanbul	Work Assignment
58	Melesse Maruta	Machinery Evaluation	February ,2011	Turkey, Istanbul	Work Assignment
59	Almaz Tilahun	Project Apprisal, Managemet & Leadership	May 30-June 10,2011	India	Training
60	Ababu Kassa	Project Apprisal, Managemet & Leadership	May 30-June 10,2011	India	Training

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61	Getachew Delelegen	Project Apprisal, Managemet & Leadership	May 30-June 10,2011	India	Training
62	Shimeket Kerega	Project Apprisal, Managemet & Leadership	May 30-June 10,2011	India	Training
63	Samson Getachew	Project Apprisal, Managemet & Leadership	May 30-June 10,2011	India	Training
64	Behailu Beteru	Project Apprisal, Managemet & Leadership	May 30-June 10,2011	India	Training
		Exposure Visit	March,31-April,6/2013	South Korea	Exposure Visit
65	Tsegaye Negussie	Project Appraisal, Management & Leadership	June 20-July 1,2011	India	Training
66	Natnel Hailu	Project Appraisal, Management & Leadership	June 20-July 1,2011	India	Training
67	Worku Mekonenen	Project Appraisal, Management & Leadership	June 20-July 1,2011	India	Training
68	Markos Aklileberhan	Conference on HRM	May 9-13,2011	Angola	Training
		Exposure Visit	March,31-April,6/2013	South Korea	Exposure Visit
69	Wondwossen Bezabeh	Conference on HRM	May 9-13,2011	Angola	Training
70	Martha Kidane	Bank Financial Management	June 20-July 2,2011	India	Training
71	Tsige Genet	Advanced Project Planning, Monitoring & Evaluation	June 13 -24,2011	India	Training
72	Taye Bekele	Advanced Project Planning, Monitoring & Evaluation	June 13 -24,2011	India	Training
73	Dessalegn Bogale	Advanced Project Planning, Monitoring & Evaluation	June 13 -24,2011	India	Training
74	Kedir Beshir	Advanced Project Planning, Monitoring & Evaluation	June 13 -24,2011	India	Training
75	Zinahbizu Abebaw	Advanced Project Planning, Monitoring & Evaluation	June 13 -24,2011	India	Training
		Credit Risk Mgt.	June 6-10,2011	India	Training
76	Tadesse Mengesha	Advanced Project Planning, Monitoring & Evaluation	June 13 -24,2011	India	Training
77	Teshome Alemayehu	Credit Risk Mgt.	June 6-10,2011	India	Training
78	Getachew Seyoum	Credit Risk Mgt.	June 6-10,2011	India	Training
79	Abebaw Serage	Core Banking T24	August 20-27,2011	India	Exposure Visit
80	Mekonenen Jaleta	Core Banking T24	August 20-27,2011	India	Exposure Visit
81	Abdulfetah Nuru	Core Banking T24	August 20-27,2011	India	Exposure Visit
82	Teshager Azemeraw	Core Banking T24	August 20-27,2011	India	Exposure Visit
83	Zelalem Solomon	Core Banking T24	August 20-27,2011	India	Exposure Visit
84	Aklilu Desta	Horticulture	September 26-October 1,2011	India	Training
85	Legesse Kebede	Horticulture	September 26-October 1,2011	India	Training
86	Gezahegn Worku	Horticulture	September 26-October 1,2011	India	Training
87	Eshetu T/Tadik	Horticulture	September 26-October 1,2011	India	Training
88	Werkeneh Teffera	Horticulture	September 26-October 1,2011	India	Training

89	Tesige Desta	Horticulture	September 26-October 1,2011	India	Training
90	Taddesse Tolecha	Horticulture	September 26-October 1,2011	India	Training
91	Getahun Chekol	Horticulture	September 26-October 1,2011	India	Training
92	Ebba Regassa	Horticulture	September 26-October 1,2011	India	Training
93	Mengistu Yechale	Horticulture	September 26-October 1,2011	India	Training
94	Jemal Hassen	Horticulture	September 26-October 1,2011	India	Training
95	Zeritu Negalegn	Horticulture	September 26-October 1,2011	India	Training
96	Gezaehegne G/ Mariam	Horticulture	September 26-October 1,2011	India	Training
97	Ahmed Mengistu	Horticulture	September 26-October 1,2011	India	Training
98	Mengistu Yechale	Bsc	21/11/11-2/12/11	Tanzania	Training
99	Mulugeta Shiferaw	Bsc	21/11/11-2/12/11	Tanzania	Training
100	Tigist Assefa	Bsc	21/11/11-2/12/11	Tanzania	Training
101	Natnael Hailu	Bsc	21/11/11-2/12/11	Tanzania	Training
102	Goitom Yemane	Bsc	21/11/11-2/12/11	Tanzania	Training
103	Konjit Tsegaye	Bsc	21/11/11-2/12/11	Tanzania	Training
104	Tilahun Wolibo	Asset Liability Mgt.	Oct 10-20,2011	India	Training
105	Fistum Tesfahunegen	Trade Finance	30/11/11-07/12/11	Germany	Training
106	Shimeket Kerga	Trade Finance	June 19-29,2012	Germany	Training
107	Tesfahun Sana	Machinery Evaluation	15/08/11-24/08/11 (Augest,2011)	Turkey,Corlu City	Work Assignment
		Machinery Evaluation	October, 2010	Turkey, Adana City	Work Assignment
		Machinery Evaluation	10/10/12-21/10/12	Turkey	Work Assignment
108	Million Jarso	Machinery Evaluation	15/08/11-24/08/11 (Augest,2011)	Turkey,Corlu City	Work Assignment
109	Behailu Hailegebreal	Assessment	27/09/11-0910/11	Turkey	Work Assignment
110	Gedion Mekonnen	Assessment	27/09/11-0910/11	Turkey	Work Assignment
111	Adissu Bejura	Assessment	27/09/11-0910/11	Turkey	Work Assignment
112	Tsedeke Berhanu	Machinery Evaluation	10/10/12-21/10/12	Turkey	Work Assignment
113	Zewdu Mekite	Projects in Rural Communities	19/11/12-30/11/12	South Africa	Training
114	Woinshet Negatu	Methods and tools for project monitoring and evaluation	19/11/12-30/11/12	South Africa	Training
115	Habtie Mebrie	Methods and tools for project M & E	19/11/12-30/11/12	South Africa	Training
116	Muluken Amene	Financial Management and Budgetary control	10/12/12-21/12/12	South Africa	Training
117	Elsabeth Taddesse	Financial Management and Budgetary control	10/12/12-21/12/12	South Africa	Training
118	Endale Kiflu	ICT- Based Financial Mgt.& Dipersement	February,10-23/2013	Kenya	Training

119	Shekura Hussien	ICT- Based Financial Mgt.& Dipersement	February,10-23/2013	Kenya	Training
120	Gizaw W/Semayat	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
121	Elias Asnake	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
122	Beminet Foto	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
123	Endale Kiflu	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
124	Shemeket Kerga	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
125	Getachew Belay	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
126	Yehalashet Mitku	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
127	Getachew Mengistu	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
128	Kabyimer Kebede	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
129	Shikura hussen	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
130	Eshetu welela	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
131	Endris Tofiq	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
132	Etenesh Kiros	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
133	Alemayehu Neway	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
134	Meseret zergaw	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
135	Nardos Asfaw	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
136	Hadush G/Egziabher	Advanced Credit Management	Sept. 13-17, 2010	Portugal	Training
		Exposure Visit	March,31-April,6/2013	South Korea	Exposure Visit
137	Jemal Seid	Advanced Credit Management	Sept. 13-17, 2010	Portugal	Training
138	Aberu Asmamaw	Project Appraisal, Management & Leadership	June 20-July 1,2011	India	Training
139	Astebeha Abay	Project Appraisal, Management & Leadership	June 20-July 1,2011	India	Training
140	Tibebu Bizuneh	Advanced Project Planning, Monitoring & Evaluation	June 13 -24,2011	India	Training
141	Yehualashet Mitiku	Advanced Project Planning, Monitoring & Evaluation	June 13 -24,2011	India	Training
142	Getachew Belay	Credit Risk Mgt.	June 6-10,2011	India	Training
143	Tsegaye Kedir	Credit Risk Mgt.	June 6-10,2011	India	Training

144	Teshome Abebe	Credit Risk Mgt.	June 6-10,2011	India	Training
145	Adane Mehari	Credit Risk Mgt.	June 6-10,2011	India	Training
146	Woldemariam Medalo	Horticulture	September 26-October 1,2011	India	Training
147	Tseahy Taye	Exposure Visit	March,31-April,6/2013	South Korea	Exposure Visit
		Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
148	Taye Jiru	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
		Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
149	Nejib Kamil	Renewable Energy and Energy ,Efficient Projects	29/04/13- 4/05/13 09/05/13-14/05/13	India	Training
		Development Finance Seminar	Oct 26-Nov 2010	China	Exposure Visit
150	Woldemariam Medalo	Horticulture	September 26-October 1,2011	India	Training

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