

Procedure of Approval and Registration of External Loan

Description

The National Bank of Ethiopia (NBE) is vested with legal authority to regulate foreign exchange and registration of external loans. To regulate external loan and supplier's credit, NBE has issued External Loan and Supplier's Credit Directive No 47/2017 effective as of October 03/2017.

A borrower should first seek approval from the NBE before entering external loan or agreeing to supplier's credit agreement with a lender or supplier. Seeking approval will not be applicable to banks. Article 4.2. of NBE Directive No SBB/77/2020 Foreign Currency Intermediation, exempted banks from seeking prior permission for each transaction of external loan.

However, for individuals or companies other than banks, external loan and supplier's credit are permitted upon prior approval by NBE. The borrower or supplier's credit seeker should present the necessary documents of the loan agreement or the proforma invoice for NBE. Registration enables the borrower or the supplier's credit seeker to pay the lender or supplier in convertible foreign currency.

The eligible parties to get approval and registration of external loan or supplier's credit are exporters, domestic investors and foreign investors. Exporters can request external loan or supplier's credit if the loan is going to finance their export oriented investment. Domestic investors that engage in projects that generate foreign currency can request external loan or supplier's credit approval. On the other hand, foreign investors can borrow from external source or request supplier's credit if the debt to equity ratio do not exceed 60:40 of the foreign capital.

The documents that need to be produced by the exporter or domestic investor or foreign investor include:

- application letter
- valid export license for exporter and domestic investor
- valid investment or other business license for foreign investor
- for external loan, the draft loan agreement
- for supplier's credit pro forma invoice
- for exporter and domestic investor documents that show capacity to repay the loan and
- for foreign investor foreign capital registration certificate.

Once approval is obtained, NBE will issue approval letter. After approval letter, the borrower or supplier's credit seeker need to present for registration the following documents:

- an application letter
- a bank advice for cash loan
- customs declaration for loans in kind and
- copy of external loan approval or supplier's credit letter. Thus the external loan or the supplier's credit will be registered.

For external loan executed by the Federal Government of Ethiopia, the requirement is only to present

for registration the external loan agreement and the guarantee issued by the government.

However, the government or banks are prohibited to be guarantors or enter guarantee agreements for external loans or supplier's credit for private loans.

Finally for repayment of the external loan or supplier's credit an application letter, copy of the external loan or supplier's credit registration letter and loan repayment schedule need to be submitted.

These are rigorous procedures the NBE put in place when it comes to foreign currency administration. The eligible parties are those that can generate foreign currency through their business only.

Category

1. Latest Posts

Date Created

November 22, 2020

Author

dmethiol_admin

Dagnachew & Mahlet Law Firm LLP