



# Global Long-Term Energy Scenarios Network webinar series

*“Energy Planning Frameworks for Mobilizing Finance  
for the Energy Transition”*

September 5, 2023

# OUTLINE

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**Overall strategy,  
corporate structure  
and business model**

**02**

**Financial Situation  
& Performance**

**03**

**Lending & Risk  
Policy**

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**Challenges and Way-  
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**01**

# **Overall Strategy, Corporate Structure & Business Model**

# DEVELOPMENT BANK OF ETHIOPIA (DBE)

- ❑ State-owned Financial Institutions
- ❑ Established in 1909
- ❑ In its recent history it re-established three times;
  - January 24, 2003 by Regulations No. 83 of 2003
  - May 24, 2005 by the Amendment Regulations No. 116 of 2005
  - Council of Ministers Regulation No. 343/2015
- ❑ As of June 30, 2021 its total capital stood at Birr 32 billion
- ❑ The bank registered net profit of Birr 3.4 billion for the year ended June 30, 2021

## Mission of DBE

- ❑ To help accelerate the country's development through provision of development finance/credit
- ❑ Mobilizing funds from sources within or outside the country, the bank
  - Provides investment loans and technical support to viable medium and long term projects,
  - Provide domestic and foreign banking services to its borrowers,
  - Manage funds entrusted to it and acting as a trustee,
  - Participate in equity investment and
  - Issue and sell of bonds.

## **Business Model of DBE**

- ❑ The Key features of the Bank's current business model:
  - Financing green-field medium and long-term projects (start-ups) with minimum possible equity contribution and mostly holding the financed projects as collaterals for its loans
  - The interest rates and fees it charges on its customers are substantially below market and;
  - take higher credit risk than conventional commercial banks in financing development and start-ups projects

# Strategic Pillars

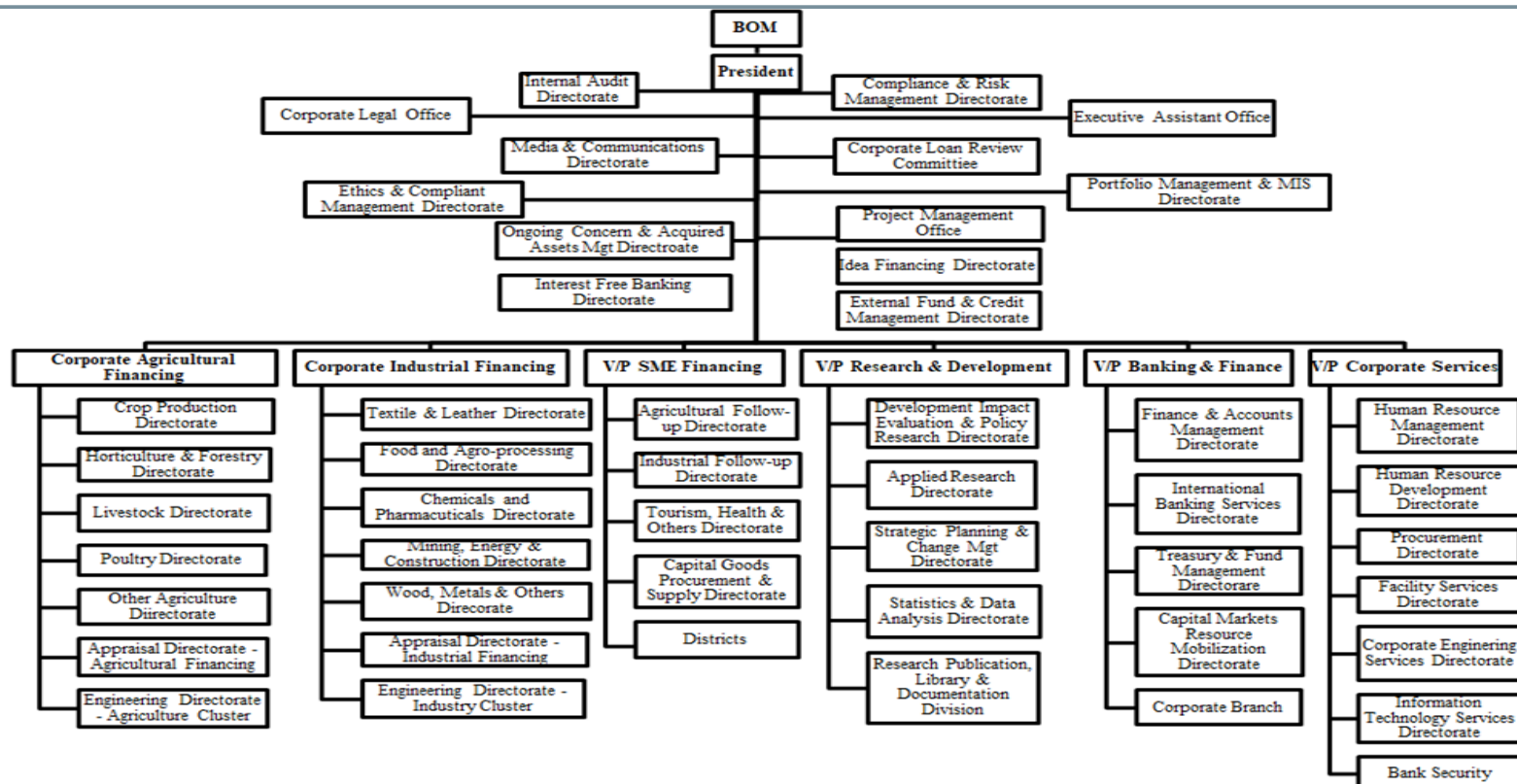
- I. Policy and Business model of the Bank
- II. Finance and sustainability
- III. Governance and structure
- IV. Leadership and Human Resource
- V. Loan recovery and Accountability
- VI. IT systems
- VII. Systems and working procedures

# Implementation of reform

- New structure is already implemented to achieve specific strategic objectives identified in the strategic reform;
- Post reform, with prudent lending practice and strong M & E, the bank has significantly reduced its NPL rate.
- Number of District is increased from 12 to 24 and number of branch is increased from 78 to 100.



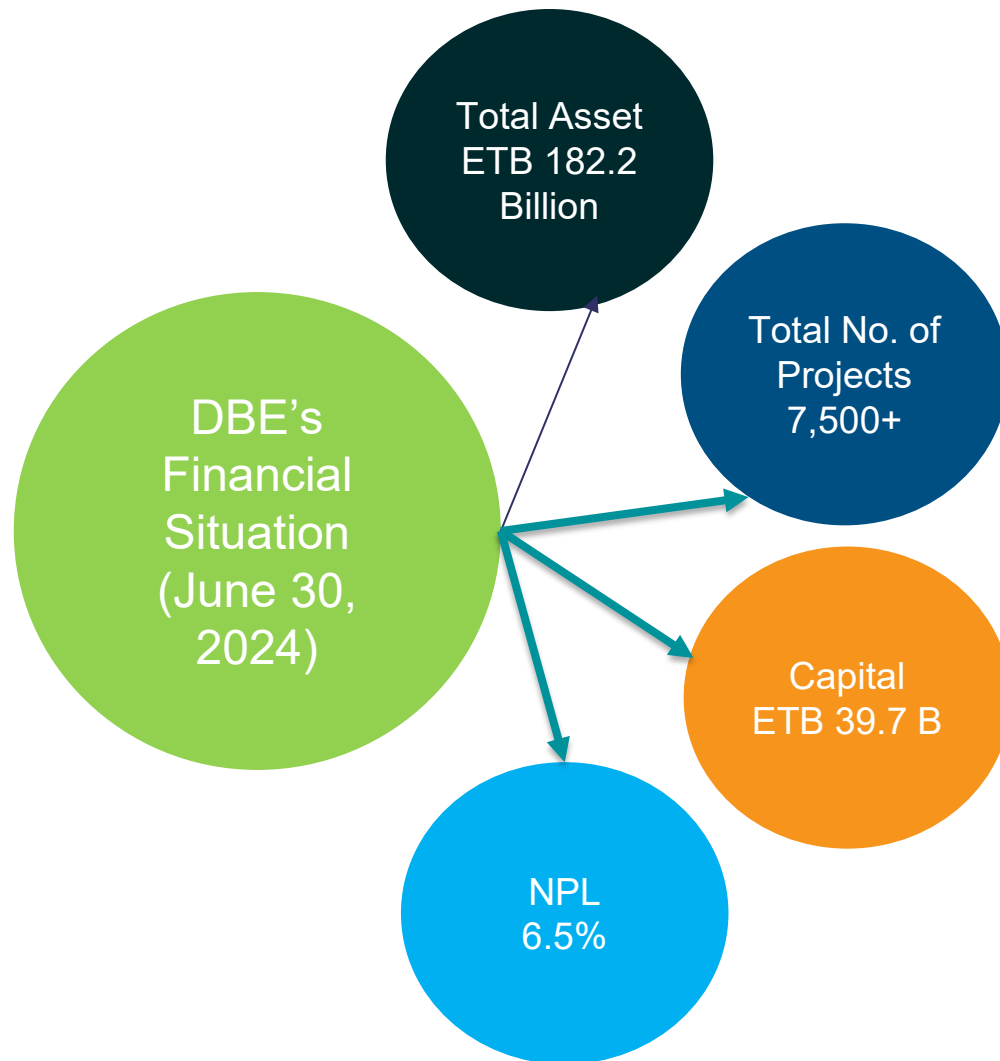
# Revised Organization Structure





**02**

# **Reform Results- Financial Situation & Performance**





# **03** Lending and Risk Policy

# DBE's Lending and Risk Policy

- ❑ It has various policies, procedures and manuals that are aimed at:
- ❑ supporting the economic growth and development of the country through the provision of medium and long term finance in the form of financial credit and leasing, managing risks, etc. in line with the national and organizational reforms or changes in the business model of our Bank.
- ❑ Some of the major policies that are under implementation by the DBE are briefly explained as follows:

# **1. Revised Credit Policy No. CP/002/2022**

- ❑ Aimed at encouraging the private investment in various economic sectors of the country including new demands such as industrial park while ensuring sustainability and playing a part in meeting the development agenda of the country.
- ❑ Among other aspects, the policy includes articles on duties and responsibilities, loan exposure limits, areas of lending, credit products and facilities (term loan, wholesale financing, managed funds, etc.), mode of financing, loan processing, lending terms and conditions, credit administration, complaints handling, etc.

## **2. Revised Lease Financing Policy No. LFP/002/2022**

- ❑ This policy is aimed at facilitating and supporting investment projects that are aligned with the government priority sectors through lease financing.
- ❑ The policy has various sections including duties and responsibilities, lease financing services, capital requirements, areas of lease financing, lease financing process (eligibility criteria, due diligence and KYC assessments, etc.), terms and conditions, lease administration, complaint handling, etc.

### **3. Risk Management Policy (2011)**

- ❑ It has been formulated in order to ensure that the Bank's business decisions are in line with the overall strategic objectives of the Bank;
- ❑ To ensure that risk taking is explicit, clear and the expected payoffs reasonably compensate for the risks taken;
- ❑ To ensure that the Bank's overall activities are consistent with its risk appetite;
- ❑ To provide an appropriate risk management framework that enables the Bank to conduct its business activities in a consistent and controlled manner; etc.



- ❑ The RM policy incorporates
  - Risk management processes;
  - Principles of risk management;
  - Scope of application;
  - Duties and responsibilities of various entities;
  - Risk tolerance limit of the bank, etc.

## Credit Approval Process

- ❑ It has four stages:
  - Due Diligence/KYC assessment;
  - Appraisal Study;
  - Loan Review;
  - Loan Approval.

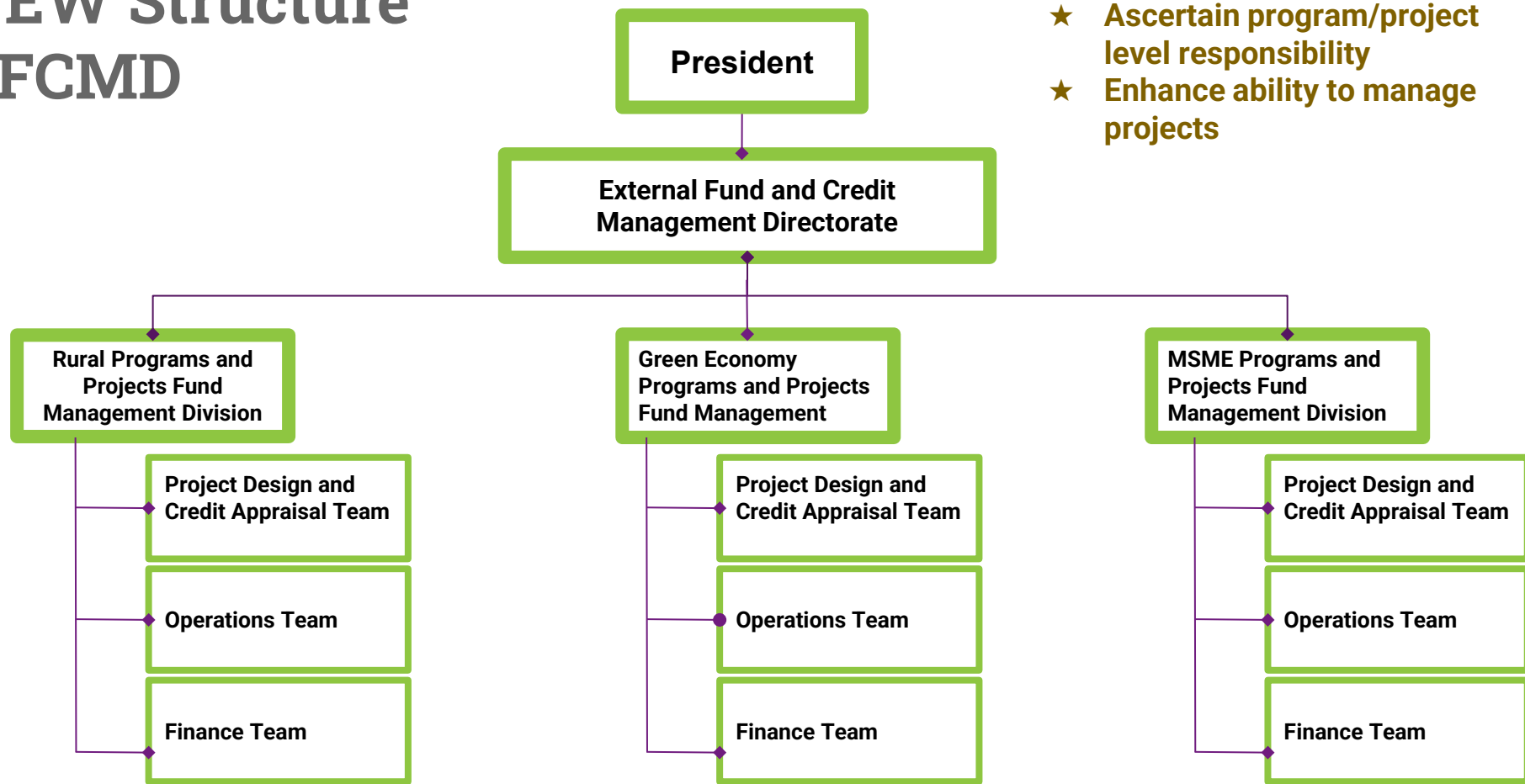
# Financial Products

- Credit (Project and Lease);
- Bond;
- Credit Guarantee;
- Grant (Financial, TA);
- Equity Financing (Idea Financing);
- Islamic Financing;
- Export Credit Guarantee;

# External Fund and Credit Management Directorate

- ❑ It is among those Directorates directly report to the president
- ❑ responsible for mobilizing and managing external fund with its three divisions namely:
  - MSMEs programs and projects Fund management division
  - Green Economy programs and projects Fund management division
  - Rural programs and projects Fund Management division
- ❑ Each division do have its own division head with three separate teams; Project Design and Appraisal Team, Operations Team and Finance Team

# NEW Structure EFCMD



## Major activities of the Directorate

- ☐ Prepare working manuals/procedures for various projects
- ☐ Prepare project fund allocation proposals & AWPB
- ☐ Withdraw funds from the financiers and deposit to Projects D/A account
- ☐ utilize Program/project funds for the intended purpose as appropriate
- ☐ Monitor Foreign and Birr accounts of project funds opened at NBE
- ☐ Release allocated funds and monitor
- ☐ Monitor and follow up program/Project implementing partner's budget utilization, environmental and social performance, beneficiary's performance, etc.

- ☐ Facilitate/coordinate the External audit Work of program/project
- ☐ Administer institutional capacity building grant budget
- ☐ Host and discuss with program/project financers supervision missions
- ☐ Prepare and submit interim financial reports (IFRs)
- ☐ Provide training and awareness creation to the program/project PFIs & beneficiaries
- ☐ Monitor and follow up income generated from project/managed funds
- ☐ Administer revolving funds



**04**

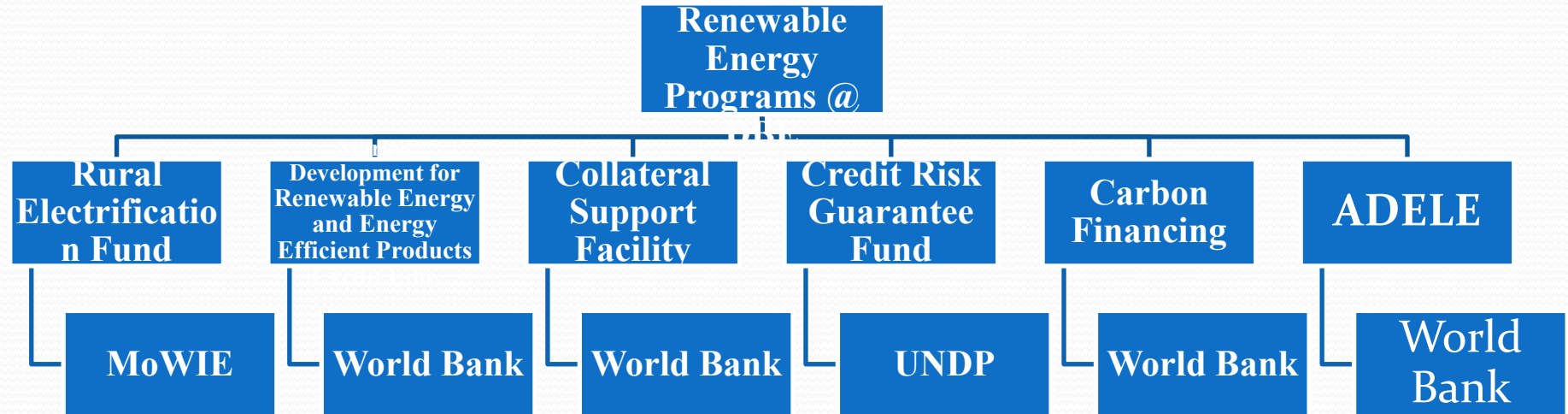
# **Energy Lending Experience**



# Energy Lending Experience

- As a policy and state owned Bank, DBE follows the national development agenda;
- Accordingly, financing of energy projects is among the priority areas of the Bank
- Private companies are encouraged to invest in the energy sector (geothermal, wind, solar...etc)
- There is a dedicated working unit called 'Mining, Energy and Construction Directorate' working on the finance of Energy programs
- DBE has long years of experience in the financing of energy projects such as Off-grid renewable energy projects and programs

# DBE's Off – grid Renewable Energy Programs:





**05**

# **Challenges and Way- forwards**



# Challenges in relation to Financing of Energy Projects

- ❑ The private sector has low appetite and interest to initiate energy related projects for various reason, among others:
  - ✓ A subsidized energy tariff is still set by the government, which is unattractive to private sector (profit makers) and difficult to compete with such lower prices
  - ✓ Lack of strong and sustainable collaboration among stakeholder
- ❑ Lack of funds (foreign currency) to finance large projects

## Way-forwards

- ❑ There should be close linkage and coordination among the private sector, government, all relevant stakeholders including financier/donors and financial institutions;
- ❑ Create favorable policy and working environment to private sector enterprises/companies interested to invest on energy projects
- ❑ Strengthen and work on the capacity building stakeholders focusing on the National Development Finance

Thank you!