



LICENSING AND SUPERVISION OF
THE BUSINESS OF CAPITAL GOODS FINANCE COMPANIES
Requirements for Licensing of Capital Goods Finance Business Directives
No. CGFB /02/ 2013

Whereas, there is a need to set up, promote and develop strong and viable capital goods finance business in Ethiopia so as to contribute for economic growth;

Whereas, proper licensing and supervision of capital goods finance companies and capital goods finance sector is important to ensure the safety and soundness of capital goods finance business;

Whereas, establishing clear, objective and transparent requirements for licensing and renewal is essential to promote the sector;

Now, therefore, in accordance with powers vested in it under Articles 4 (4) and 18 (4) of Capital Goods Leasing Business (Amendment) Proclamation No 807/2013, the National Bank of Ethiopia has issued these directives.

1. Short Title

These directives may be cited as “Requirements for Licensing of Capital Goods Finance Business Directives No. CGFB/02/2013”.

2. Definitions

For the purpose of these directives, unless the context requires otherwise:

2.1 “bankrupt” is a person who has been declared bankrupt by the court of law;

2.2 “capital goods finance” includes financial lease and hire-purchase;

2.3 “chief executive officer” means a person, by whatever title that person may be referred to, who is primarily responsible for the day-to-day management of a capital goods finance company;

2.4 “director” refers to any member of the board of directors of a capital goods finance company by whatever title he may be referred to;

- 2.5 “fit and proper criteria”** are criteria used to assess and determine whether project manager, organizers and persons with significant influence possess the integrity, financial soundness and competence and capacity to fulfill the responsibilities of their positions;
- 2.6 “managerial position”** means a position in a minimum of division head capacity in operation, finance or internal control areas in banking, micro financing institution, capital goods finance company or any other financial institution engaged in financial leasing, deposit taking, lending and money transfer activities;
- 2.7 “National Bank”** refers to the National Bank of Ethiopia;
- 2.8 “organizers”** means persons who have initiated plans or facilitated the formation of a capital goods finance company and who shall jointly and severally be liable to third parties in respect of commitments entered into during capital goods finance company formation process;
- 2.9 “person”** means any natural or legal person;
- 2.10 “persons with significant influence”** are directors and chief executive officer of a capital goods finance company;
- 2.11 “project manager”** means a person who shall be in charge of the whole process of obtaining business license of a capital goods finance company;
- 2.12 “related party of a capital goods finance company or a capital goods finance company under formation”** means

On the one hand,

an organizer, a project manager, a shareholder, a director or a chief executive officer of that capital goods finance company and/or the spouse or relation in the first degree of consanguinity or affinity of such organizer, project manager, shareholder, director or a chief executive officer, and

On the other,

a partnership, a common enterprise, a private limited company, a share company, a joint venture, or any other business in which the organizer, project manager, shareholder, director or chief executive officer of the capital goods finance company and/or the spouse or relation in the first degree of consanguinity or affinity of such organizer, project manager, shareholder, director or chief executive officer has a business interest as owner, partner, shareholder, director chief executive officer, or in any other way or form;

- 2.13 “Technically insolvent person”** is a person whose liabilities are greater than assets or whose significant part of assets have been foreclosed by a bank or sequestrated by a court order.

3. Scope of Application

The provisions of these directives shall be applicable to those who desire to obtain or renew capital goods finance business license.

4. Fit and Proper Criteria

4.1 Organizers and Project Manager

4.1.1 Organizers shall appoint a project manager.

4.1.2 The project manager shall have at a minimum:

- i) first degree from recognized higher learning institution, and
- ii) business experience preferably in capital goods finance related project.

4.1.3 Organizers and project manager shall submit completed and signed fitness and propriety test questionnaire, which is part hereof.

4.1.4 The project manager and organizers shall be honest, reputable and diligent. In determining the integrity of organizers and project manager, all relevant factors shall be considered, including but not limited to:

- i) whether the person has a record or evidence of previous conduct and activities where he/she/it has been convicted for a criminal offence under any law designed to protect members of the public from dishonesty or fraud whether in Ethiopia or elsewhere;
- ii) whether the person has a record of withholding information from public authorities, submission of incorrect financial or other statements, prior refusal of regulatory/supervisory approval and failure to comply with requirements of regulatory/supervisory body, other corrective actions or interventions by public authorities; and
- iii) whether the person has a record of disciplinary measures or any dispute with previous employers, or compliance with a code of conduct which has led to the imposition of a penalty under employment law or any other disciplinary measures imposed by trade or professional associations.

4.2 Persons with Significant Influence

4.2.1 General

- i. Persons with significant influence shall meet all respective requirements and considerations set in these directives.
- ii. Appointment of directors and chief executive officer shall be subject to approval by the National Bank.
- iii. In appointing chief executive officer, board of directors shall ensure that such person fulfills requirements set in these directives.
- iv. Persons with significant influence shall submit an updated and signed curriculum vitae and completed and signed fitness and propriety test questionnaire, which is part hereof.

4.2.2 Knowledge and Experience

With respect to knowledge, experience and age, directors and a chief executive officer, shall at a minimum fulfill the following:

i. Board of Directors

- a) All board members of a capital goods finance company shall hold a minimum of diploma from recognized higher institution of learning.
- b) A director shall have a minimum of 3 years of work experience; and
- c) A director shall be at least 25 years old.

ii. Chief Executive Officer

A chief executive officer shall:

- a) hold a minimum of first degree from recognized higher learning institution; and
- b) have a minimum of 5 years of work experience of which, at a minimum, 3 years shall be in a managerial position.

4.2.3 Integrity

Persons with significant influence shall be honest, reputable and diligent. In determining integrity of persons with significant influence, all relevant factors shall be considered, including but not limited to:

- i) whether the person has a record or evidence of previous conduct and activities where he/she/it has been convicted for a criminal offense under any law designed to protect members of the public from dishonesty or fraud whether in Ethiopia or elsewhere;
- ii) whether the person has a record of withholding information from public authorities, submission of incorrect financial or other statements, prior refusal of regulatory/supervisory approval and failure to comply with requirements of regulatory/supervisory body, other corrective actions or interventions by public authority; and
- iii) in case of chief executive officer, whether the person has a record of disciplinary measures or any dispute with previous employers or compliance with a code of conduct which has led to the imposition of a penalty under employment law or any other disciplinary measures imposed by trade or professional associations.

4.2.4 Financial Soundness

Persons with significant influence shall be financially sound. In determining financial soundness of persons with significant influence, all relevant factors shall be considered, including but not limited to:

- i) whether he/she or the legal person in which he/she is a director or chief executive officer or senior executive officer or owner has instituted bankruptcy proceedings or declared bankrupt, whether in Ethiopia or elsewhere, or his/her or the

company's assets have been sequestered because of bankruptcy or been foreclosed by a bank/ microfinance institution because of failure to repay a loan;

- ii) whether he/she or the legal person in which he/she is a director or chief executive officer or senior executive officer or owner has been convicted of default on repayments of bank/ microfinance institution or other credits or tax payment;
- iii) whether he/she or the legal person in which he/she is a director or chief executive officer or senior executive officer or owner carries non-performing loans, as defined by directives of the National Bank, from any financial institution;
- iv) whether the person's purchase of shares in a financial institution has been funded or to be funded by another person who is actually bankrupted or technically insolvent because of irresponsible or reckless management, fraud or illegal business practice;
- v) whether the person's minimum net worth at the time of acquisition of shares is at least greater than shares acquired or to be acquired from a financial institution; and
- vi) whether a person's account has been closed and not reinstated by any bank, in line with relevant directives of the National Bank, because of drawing checks without sufficient funds.

4.2.5 Period of Limitation for Acting on Chief Executive Officer Position

The chief executive officer position of a Capital Goods Finance Company shall not be held on acting basis for more than 6 months.

4.2.6 Prohibition

An employee of a Capital Goods Finance Company may not be Chairperson of the board of directors of that Capital Goods Finance Company.

5. Licensing Requirements

5.1 Form of Organization

A Capital Goods Finance Company shall be established as share company as defined under the commercial code of Ethiopia.

5.2 Pre-application phase

5.2.1 Evidence of registration of trade name from Ministry of Trade and/or Regional Trade Bureau.

5.2.2 Signed minutes of first meeting of organizers along with attendance sheet.

- 5.2.3 Submission of prospectus, which is a printed statement that describes and forecasts the course or nature of the company along with expected risks, to be distributed to prospective investors.
- 5.2.4 Written application requesting to open blocked subscription account indicating the name of the bank(s)/branch (es) or microfinance institution.
- 5.2.5 Duly completed application form, as specified under **Attachments I and II** of these Directives, for organizers and project manager.
- 5.2.6 Properly completed propriety test questionnaire, as specified under Attachment **III** of these Directives, for organizers and project manager.
- 5.2.7 Evidences of payment of investigation fee.

5.3 Application phase

- 5.3.1 Duly completed application form, as specified under **Attachment IV** of these Directives, shall be submitted, together with all enclosures as stated herein, to Microfinance Institutions Supervision Directorate.
- 5.3.2 Evidence of paid-up capital which includes certificate of deposits in a blocked account and evidence for valuation of contribution in kind (if any).
- 5.3.3 Signed minutes of subscribers meeting with attendance sheet.
- 5.3.4 List of names, nationality, address, number and value of subscribed shares of founders to be published in newspaper.
- 5.3.5 Articles and memorandum of associations written in Amharic and preferably in English.
- 5.3.6 Authenticated ownership certificate and/or lease agreement for building, land, vault, equipment, fixtures and professional services.
- 5.3.7 Evidence for insurance coverage for premises acquired or leased.
- 5.3.8 Description of actual purchases made or proposed purchase of goods and services or lease of real estate by the capital goods finance company (under formation) from related parties and organizers.
- 5.3.9 Duly completed general information and propriety test questionnaires for directors, and chief executive officer as per **ANNEXES I and II** of these Directives.
- 5.3.10** Business plan stating at least the following:
 - i) executive summary,
 - ii) introduction,
 - iii) macroeconomic analysis,
 - iv) financial sector analysis,
 - v) capital goods finance sector analysis,
 - vi) business environments,
 - vii) products and services,
 - viii) target sector and customer focus,

- ix) type/category of equipments and machineries to be leased,
- x) organizational chart of the company with brief description of the functions of the main organizational units,
- xi) strategic and operational plans,
- xii) source of capital and finances,
- xiii) accounting policies,
- xiv) assumptions for financial projections,
- xv) financial projections for the first three years including balance sheet, income statement, cash flow projections, and
- xvi) conclusion /recommendation.

5.3.11 Evidence of payment of licensing fee.

6. Conditions for Commencement of Operation

To commence operation, a licensed capital goods finance company shall:

- 6.1 put in place at a minimum comprehensive policies, procedure manuals, programs and guidelines for:
 - 6.1.1 capital goods financed operation,
 - 6.1.2 human resource management,
 - 6.1.3 procurement,
 - 6.1.4 internal audit/control,
 - 6.1.5 risk management process (for risks such as credit, operational, market, liquidity, asset, documentation and concentration),
 - 6.1.6 management information system/MIS,
 - 6.1.7 finance and budgeting,
 - 6.1.8 fixed assets, and
 - 6.1.9 corporate governance.
- 6.2 hire, train and place adequate and appropriate staff;
- 6.3 ensure that the capital goods finance company meets the following requirements:
 - 6.3.1 business operating area include:
 - i) proper ventilation and circulation of fresh air,
 - ii) suitable and clean sanitary service,
 - iii) sufficient and suitable lighting,
 - iv) displays of working hours, and
 - v) adequate warehouse/storage space for equipments and machineries.
 - 6.3.2 hold insurance policy for burglary and theft.

7. Display of License

A licensed capital goods finance company shall at all time display in a conspicuous place its valid original business license in its head office and copy of the business license in its branches.

8. Renewal of License

8.1 A capital goods finance company shall renew its business license every year.

8.2 A capital goods finance company applying for renewal of business license shall present the following:

8.2.1 application requesting renewal of business license and any changes in the particulars of the existing license;

8.2.2 original business license of the capital goods finance company; and

8.2.3 evidence of payment of renewal fee and/or penalty.

9. Fees

9.1 A company applying to obtain new capital goods finance business license shall pay:

9.1.1 investigation fee of Birr 5,000; and

9.1.2 licensing fee of Birr 5,000.

9.2 A capital goods finance company applying for renewal of its business license shall pay renewal fee of Birr 5,000.

10. Enforcement Actions and Penalties

The National Bank may revoke or suspend the license of a capital goods finance company where:

10.1 it is confirmed that the license was issued on the basis of false information;

10.2 the company has failed to commence operation within 12 months following the grant of the license;

10.3 the company has violated any law or regulation governing the operation of the company;

10.4 the company is unable to effectively carry on capital goods finance business activities; or

10.5 the company is insolvent or is subject to bankruptcy or liquidation proceedings or a receiver of its assets has been appointed.

11. Effective Date

These Directives shall enter into force as of the 1st day of October 2013.

Attachment I



Application form for Organizers

General information

No.	Full ¹ name	Nationality	Address				
			City	Sub-city	Wereda	House No.	Tel.
1							
2							
3							
.							

1. Proposed name of the capital goods finance companies (under formation)

2. Name of organizing committee's chairperson _____

2.1 Address _____

3. I hereby confirm that the above particulars and the information provided in the attached enclosure are true and correct.

Signature of organizing committee's chairperson _____

Date _____

Attachment II

¹ Including grand father



Application form for project manager

General information

Full ² name	Nationality	Address				
		City	Sub-city	Wereda	House No.	Tel.

1. Proposed name of the ~~bank~~ capital goods finance company (under formation) _____
2. Present _____ ~~position~~ _____ of _____ project manager _____

3. I hereby confirm that the above particulars and the information provided in the attached enclosure are true and correct.

Date _____

Signature _____

Attachment III: PROPRIETY TEST QUESTIONNAIRE (Organizer, project manager -underline)

Please give yes or no answers for the following questions and if your answer is "yes" please give particulars.

Full Name: -----
(Organizer, project manager -underline)

Name of the capital goods finance company: -----

- | | <u>Yes</u> | <u>No</u> |
|---|--------------------------|--------------------------|
| 1. Have you been charged or convicted of any criminal offence, particularly an offence relating to dishonesty, fraud, under any law whether in Ethiopia or elsewhere? | <input type="checkbox"/> | <input type="checkbox"/> |

If yes, give particulars _____

² Including grand father

2. Have you ever been imposed with corrective actions or interventions by public authority due to withholding information or submission of incorrect financial or other statements?

If yes, give particulars _____

3. Have you ever been refused approval by any regulatory/supervisory body or failed to comply with requirements of regulatory/supervisory body?

If yes, give particulars _____

4. Have you ever been in dispute with previous employees concerning fulfillment of position or compliance with a code of conduct which has led to the imposition of a penalty under employment law or ever been dismissed or requested to resign from any office of employment or disciplinary measures imposed by trade or professional associations?

If yes, give particulars _____

5. Have you ever been refused, whether in Ethiopia or elsewhere, the right to carry on any trade, business or profession for which a specific license, registration or other authority is required?

If yes, give particulars _____

6. Have you ever been bankrupt whether in Ethiopia or elsewhere or have your assets been sequestered because of bankruptcy or foreclosed by a bank/MFI due to failure to repay a loan?

If yes, give particulars _____

7. Have you ever been convicted of default on repayment of bank or other credits or tax payment?

If yes, give particulars _____

8. Have you ever been carrying non-performing loans or account been closed and not reinstated by any bank in line with relevant directives of the National Bank?

If yes, give particulars _____

Declaration

I am aware that it is an offense to provide false or misleading statement.

I certify that the information and/ or statements given above are complete and accurate to the best of my knowledge, and that there are no other facts relevant to this application of which the National Bank would be aware. I also undertake to inform the National Bank of any changes material to the application.

Name _____

Signature _____

Date _____

Attachment IV



APPLICATION FORM TO UNDERTAKE CAPITAL GOODS FINANCE BUSINESS

1. Name of applicant and designation _____
2. Name of the capital goods finance company (under formation) _____
3. Name of the contact person _____
Address: _____
4. Address of the capital goods finance company (under formation)
 - Street (location): _____
 - Building: _____
 - Postal address: _____
 - Telephone no.: _____
 - Fax: _____
 - E-mail _____

5. Names and Address of Board Members

No.	Full name ³	Nationality	City	Sub-city	Wereda	House No.	Tel.	Subscribed capital		Paid up Capital	
								Number of shares	Amount in birr	Number of shares	Amount in birr
1											
2											
.											
.											
.											
Grand Total											

³ Including grandfather

6. Products and Services of the capital goods finance company
- 6.1 Products and services the capital goods finance company intends to carry out:
- 6.1.1 _____

- 6.1.2 _____

- 6.1.3 _____

- 6.2 List of/ categories of equipments and machineries the company intends to lease :
- 6.2.1 _____

- 6.2.2 _____

- 6.2.3 _____

- 6.2.4 _____

- 6.2.5 _____

7. Paid-up capital contribution
- 7.1 In _____ cash
birr _____
- 7.2 In kind (specify the type of property and value in birr and the manner of valuation, if any) _____
8. Initial capital of the capital goods finance company (under formation) in birr _____
- 8.1 Subscribed capital birr _____. (_____ birr)
- 8.2 Paid-up capital birr _____. (_____ birr)
9. Shares
- 9.1 Number _____ of _____ shares
subscribed _____
- 9.2 Par value of the share in
birr _____

10. Provide the following with respect to:

10.1 In cash birr _____

Item	Manner of acquisition ⁴	Cost
a. Building		
b. Land		
c. Equipment		
d. Fixture		
e. Professional services		
Total		

10.2 Indicate if any of items herein above is acquired from related parties.

11. Types and extent of proposed insurance coverage _____

12. Please give statement that members of board of directors and chief executive officers are vetted to fulfill the requirements stated in Requirements for Persons with Significant Influence in a Capital Goods Finance Company Directives No.CGFC/03/2013.

13. Any additional comments:

14. I hereby confirm that the foregoing statements, particulars, enclosures, and information are true and correct to the best of my knowledge.

Date _____
Signature _____

Name and official designation of the applicant

⁴ Lease, purchase, rent . . .etc, and attach agreements as per the manner of acquisition

NATIONAL BANK OF ETHIOPIA

ANNEX I: GENERAL INFORMATION (director or chief executive officer - Underline)

NB: In case the space provided is inadequate, use additional paper.

1. Name of the capital goods finance company:-----
2. Personal information
 - a. Full Name:-----
 - b. Date of birth: -----
 - c. Place of Birth: -----
 - d. Nationality: -----
 - e. Identification Card Number and Date of Issue:-----
 - f. Passport Number and Date of Issue:-----
 - g. Tax Payer Identification Number:-----
 - h. Address: City:----- Sub-City:-----Kebele:-----House No.:-----
Postal Address: -----Telephone No.:-----
 - i. Educational Qualification:-----
 - j. Summary of Work Experience:

No.	Organization	Position	Duration	Number of years

- k. Name(s) of your bankers/MFIs for the Last 5 Years:-----

3. Please list financial institutions and capital goods finance companies in which you currently (as of completing this form) own shares in the following table.

Name of the institution /company	Subscribed shares owned		Remarks
	In number	Share in the financial institution's total subscribed capital (%)	

4. Description of your past and current business activities in Ethiopia and abroad (if applicable)
- a) Current shareholding or ownership in a company

Company name	Date of incorporation	Amount of shareholding	% of shareholding (in total shares of the company)	Remark

- b) Past shareholding or ownership in a company (shares you owned in the past but had been relinquished)

Company name	Date of incorporation	Amount of shareholding	% of shareholding (in total shares of the company)	Reason for termination of shareholding	Remark

- c) Borrowings (directly or indirectly)

Name of borrower*	Name of lending institution	Type of facility	Amount borrowed	Date of approval	Security offered (type)	Value of security	Current outstanding Balance	Status of the loan (pass, s. mention, doubtful ...)	Remark

--	--	--	--	--	--	--	--	--	--

*Including all companies 10% or more owned by the applicant, the applicant's spouse and children less than 18 years.

5. Please provide details of the actual source(s) of funds that you, as a shareholder, would like to invest or use in the acquisition of the shares in a capital goods finance company.

ANNEX II: PROPRIETY TEST QUESTIONNAIRE

Please give yes or no answers for the following questions and if your answer is "yes" please give particulars.

Full Name:
 (director or chief executive officer - Underline)

Name of capital goods finance company:

- | | <u>Yes</u> | <u>No</u> |
|--|--------------------------|--------------------------|
| 8. Have you or the legal person in which you were a director, chief executive officer or senior executive officer or owner been charged or convicted of any criminal offence, particularly an offence relating to dishonesty, fraud, under any law whether in Ethiopia or elsewhere? | <input type="checkbox"/> | <input type="checkbox"/> |
| If yes, give particulars _____
_____ | | |
| 9. Have you or the legal person in which you were a director, chief executive officer or senior executive officer or owner ever been imposed with corrective actions or interventions by public authority due to withholding information or submission of incorrect financial or other statements? | <input type="checkbox"/> | <input type="checkbox"/> |
| If yes, give particulars _____
_____ | | |
| 10. Have you or the legal person in which you were a director, chief executive officer or senior executive officer or owner been refused approval by any regulatory/supervisory body or failed to comply with requirements of regulatory/supervisory body? | <input type="checkbox"/> | <input type="checkbox"/> |
| If yes, give particulars _____
_____ | | |
| 11. Have you ever been in dispute with previous employees concerning fulfillment of | <input type="checkbox"/> | <input type="checkbox"/> |

position or compliance with a code of conduct which has led to the imposition of a penalty under employment law or ever been dismissed or requested to resign from any office of employment or disciplinary measures imposed by trade or professional associations?

If yes, give particulars _____

12. Have you ever been refused, whether in Ethiopia or elsewhere, the right to carry on any trade, business or profession for which a specific license, registration or other authority is required?

If yes, give particulars _____

13. Have you or the legal person in which you were a director, chief executive officer or senior executive officer or owner been declared bankrupt whether in Ethiopia or elsewhere or have your assets been sequestrated because of bankruptcy or foreclosed by a bank/MFI due to failure to repay a loan?

If yes, give particulars _____

14. Have you or the legal person in which you were a director, chief executive officer or senior executive officer or owner been convicted of default on repayment of bank or other credits or tax payment?

If yes, give particulars _____

15. Have you or the legal person in which you were a director, chief executive officer or senior executive officer or owner been carrying non-performing loans or account been closed and not reinstated by any bank in line with relevant directives of the National Bank?

If yes, give particulars _____

16. Has your purchase of shares in a financial institution/ capital goods finance company been funded or to be funded by another person or legal entity who is actually bankrupted or technically insolvent because of irresponsible or reckless management, fraud or illegal business practice?

If yes, give particulars _____

17. Has your minimum net worth at the time of acquisition of shares at least greater than the shares acquired or to be acquired from a financial institution or capital goods finance company?

If yes, give particulars _____

18. Are you currently member of board of directors or chief executive officer in any of the

financial institutions or capital goods finance companies?

If yes, give particulars _____

Declaration

I am aware that it is an offense to provide false or misleading statement.

I certify that the information and/ or statements given above are complete and accurate to the best of my knowledge, and that there are no other facts relevant to this application of which the National Bank would be aware. I also undertake to inform the National Bank of any changes material to the application.

Name _____

Signature _____

Date _____