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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

LICENSING AND SUPERVISION OF
THE BUSINESS OF
MICRO-FINANCING INSTITUTIONS

Requirements for Persons
with Significant Influence in a Micro Finance Institution
Directives No. MFI/21/2012

Whereas, ensuring sound practices, stability and long-term institutional success in the financial system in general and microfinance sector in particular is crucial;

Whereas, public confidence in the financial system depends, among other things on whether financial institutions including micro-financing institutions are owned and managed by persons who are fit and proper;

Whereas, it is necessary to enhance effectiveness of governance of microfinance institutions;

Whereas, there is a need to ensure that the National Bank of Ethiopia exercises its responsibilities to assess whether microfinance institutions are soundly and prudently managed and directed;

Now, therefore, in accordance with articles 11 (1), 27 (2), and 28 (1) of Micro Financing Business Proclamation No.626/2009, the National Bank of Ethiopia hereby issues these directives.

1. Short Title

These Directives may be cited as “Requirements for Persons with Significant Influence in a Micro Finance Institution Directives No. MFI/21/2012”

2. Definitions

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

- 2.1 “**Bankrupt**” is a person who has been declared bankrupt by the court of law;
- 2.2 “**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 the affairs of a micro-financing institution;
- 2.3 “**Director**” means any member of the board of directors of a micro-financing institution, by whatever title he/she may be referred to;
- 2.4 “**Financial institution**” means insurance company, bank, micro finance institution, postal savings, money transfer institution or such other similar institution as determined by the National Bank;
- 2.5 “**Fit and proper criteria**” are criteria used to assess and determine whether persons with significant influence possess the integrity, financial soundness, 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

or any other financial institution engaged in deposit taking, lending and money transfer activities;

- 2.7 **“National Bank”** means the National Bank of Ethiopia;
- 2.8 **“Person”** means any natural or legal person;
- 2.9 **“Persons with significant influence”** are directors and chief executive officer of a micro-financing institution;
- 2.10 **“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 sequestered by a court order.

3. Scope of Application

The provisions of these directives shall be applicable to persons with significant influence in a micro-finance institution.

4. General

- 4.1 Persons with significant influence shall meet all respective requirements and considerations set in these directives.
- 4.2 Appointment of directors and chief executive officer shall be subject to approval by the National Bank.
- 4.3 In appointing chief executive officer, board of directors shall ensure that such person fulfills requirements set in these directives;

5. Fit and Proper Criteria

5.1 Knowledge, Experience and Age

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

5.1.1 Board of Directors

- i) All board members of a microfinance institution shall hold a minimum of diploma from recognized higher institution of learning.
- ii) A director shall have a minimum of 3 years work experience.
- iii) A director shall be at least 25 years old.

5.1.2 Chief Executive Officer

A chief executive officer shall:

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

5.2. 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:

- 5.2.1 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;



- 5.2.2 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
- 5.2.3 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.

5.3 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:

- 5.3.1 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;
- 5.3.2 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;
- 5.3.3 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;
- 5.3.4 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;
- 5.3.5 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
- 5.3.6 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.

6. Prohibitions

- 6.1 A director or chief executive officer of a micro-finance institution may not, at the same time, serve as a director of any other financial institution.
- 6.2 An employee of a micro-financing institution may not be chairperson of the board of directors of that micro-financing institution or a director of any other micro financing institution.



7. Ongoing Fitness and Propriety Test, and Action by the National Bank

- 7.1 The National Bank may conduct fitness and propriety test on persons with significant influence of a microfinance institution on an ongoing basis.
- 7.2 Where such a test indicates that a person with significant influence has failed to fulfill the fitness and propriety test as set out in these directives, the National Bank may suspend and/or remove a director or a chief executive officer of a micro-financing institution.

8. Subsequent Notification Requirements

- 8.1 Persons with significant influence are required to immediately notify the National Bank any events that might change their assessment as fit and proper.
- 8.2 If board of directors, chief executive officer and external auditors of a micro-financing institution, during the course of performing their duties, have reasonable doubt that a person with significant influence has failed to fulfill the criteria in these directives, they shall immediately report the matter to the National Bank.

9. Documents to be Submitted on Application

- 9.1 Written request shall be submitted to the National Bank along with the following documents of persons with significant influence, in order to conduct fitness and propriety test:
 - 9.1.1 an updated and signed curriculum vitae (including name, nationality, birth date, education, recent photograph, employment history, experience in business and financial affairs, involvement in civic, social and charitable activities including any leadership position held) accompanied with authenticated copies of documents signifying educational qualification and work experience;
 - 9.1.2 copies of identification card and /or passport;
 - 9.1.3 completed and signed fitness and propriety test questionnaire, which is part hereof;
 - 9.1.4 copy of tax payer registration number card; and
 - 9.1.5 any other document that the National Bank deems necessary.
- 9.2 In case of corporate entities, the following documents shall be submitted:
 - 9.2.1 copies of the company's memorandum and articles of association or any similar document of incorporation;
 - 9.2.2 copies of audited statements of the legal entity concerned, for three consecutive years (immediately preceding its application) or for each year it has been in operation, if less than three years; and
 - 9.2.3 any other documents the National Bank deems necessary.

10. Period of Limitation for Acting as Chief Executive Officers

A person shall not assume chief executive officer position on acting basis for more than 6 months.



11. Exemption


- 11.1 Provisions of article 5.1.1 of these directives shall not apply to the incumbent board members until their present office term expires.
- 11.2 Provisions of article 5.1.2 of these directives shall not apply to the incumbent chief executive officers as long as they hold their current position with their present employer.

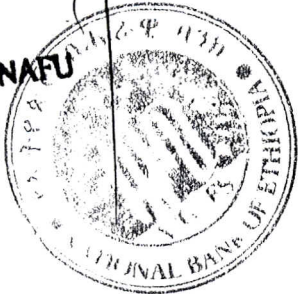
12. Repeal

Directive No. MFI/03/96 is hereby repealed and replaced by these directives.

13. Effective Date

These directives shall enter into force as of 1st day of June 2012.


TEKLEWOLD ATNAFU
GOVERNOR



The seal is circular with the text "NATIONAL BANK OF ETHIOPIA" around the perimeter. In the center, there is a stylized emblem featuring a sun and a gear, with Amharic text above it.

NATIONAL BANK OF ETHIOPIA

ANNEX 1: GENERAL INFORMATION (director or chief executive officer - Underline)

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

1. Name of MFI.....

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 in which you currently (as of completing this form) own shares in the following table.

Name of the financial institution	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 shares in a **MFI**.

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ANNEX 2: 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 MFI: _____

- | | <u>Yes</u> | <u>No</u> |
|---|--------------------------|--------------------------|
| 1. 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 or fraud, under any law whether in Ethiopia or elsewhere?
If yes, give particulars _____
_____ | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. 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?
If yes, give particulars _____
_____ | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. 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?
If yes, give particulars _____
_____ | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Have you ever been in dispute with previous employers 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 _____
_____ | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Have you been refused, whether in Ethiopia or else where, 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 _____
_____ | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. 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 its assets have been sequestrated because of bankruptcy or foreclosed by a bank/MFI due to failure to repay a loan?
If yes, give particulars _____
_____ | <input type="checkbox"/> | <input type="checkbox"/> |



7. 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 repayments of bank or other credits or tax payment?
 If yes, give particulars _____

8. Have you or the legal person in which you were a director or 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 directive of the National Bank?
 If yes, give particulars _____

9. Has your purchase of shares in a financial institution 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 _____

10. 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?
 If yes, give particulars _____

11. Are you currently member of board of directors or chief executive officer in any of the financial institutions?
 If yes, give particulars _____

Declaration

I am aware that under sub-article 1(b) of Article 26 of Micro Financing Business Proclamation No. 626/2009 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 should be aware. I also undertake to inform the National Bank of any changes material to the application.

Name _____

Signature _____

Date _____

