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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

FIS/MFISD/078/2020

March 06, 2020

All Microfinance Institutions

All Microfinance Institutions (Under Formation)

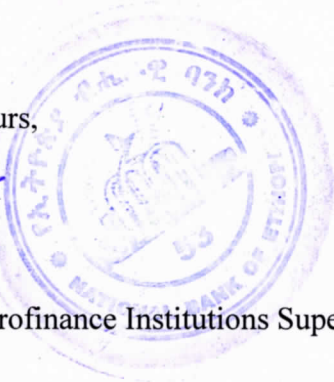
Ethiopia

Please find enclosed herewith “Manner of Equity Investment by Foreign Nationals of Ethiopian Origin or Organization in Microfinance Business Directives No. MFI/30/2020” for your information and implementation.

Sincerely Yours,

Asfaw Abera

Director, Microfinance Institutions Supervision Directorate



C.C:

- ☞ H. E. The Governor
- ☞ Vice Governor, Financial Institutions Supervision
- ☞ Vice Governor, Monetary Stability
- ☞ Vice Governor, Corporate Services
- ☞ Senior Advisor
- ☞ Advisors
- ☞ All Directorates

National Bank of Ethiopia



LICENSING AND SUPERVISION OF MICROFINANCE BUSINESS

**Manner of Equity Investment by Foreign Nationals of Ethiopian Origin
or Organization in Microfinance Business Directives No. MFI/30/2020**

Whereas, Foreign Nationals of Ethiopian Origin or Organizations have been allowed to invest in the Ethiopian microfinance business;

Whereas, there is a need to put in place implementation modality for investment by Foreign Nationals of Ethiopian Origin or organization in Ethiopian microfinance business;

Now, therefore, in accordance with article 32 (4) of Microfinancing Business Proclamation No. 626/2009 as amended by article 2 (8) of the Microfinance Business (Amendment) Proclamation No. 1164/2019 and articles 20 (2) and 27 (2) of the National Bank of Ethiopia Establishment (as Amended) Proclamation No. 591/2008, the National Bank of Ethiopia has issued these Directives.

1. Short Title

These Directives may be cited as “**Manner of Equity Investment by Foreign Nationals of Ethiopian Origin or Organization in Microfinance Business Directives No. MFI/30/2020**”.

2. Definitions

For the purpose of these Directives, unless the context requires otherwise, the term:

2.1. “**Acceptable Foreign Currency**” means foreign currency which is declared to be acceptable for payment in Ethiopia by the National Bank and shall include United States Dollar, Great Britain Pound Sterling, Euro and other currencies that the National Bank may specify to be acceptable for this purpose from time to time.



- 2.2. **“Foreign National of Ethiopian Origin”** means a person with a valid identification card obtained pursuant to Proclamation No. 270/2012 attesting that he/she is a Foreign National of Ethiopian Origin;
- 2.3. **“Microfinance Institution”** means a Microfinance Institution licensed by the National Bank to undertake micro-financing business in Ethiopia;
- 2.4. **“Microfinance Institution under formation”** means a Microfinance Institution that has applied for a micro-financing business license from the National Bank;
- 2.5. **“Mid exchange rate”** means exchange rate between buying and selling rate of a day set by the National Bank;
- 2.6. **“National Bank”** means the National Bank of Ethiopia; and
- 2.7. **“Organization”** means an entity that is fully owned by Foreign Nationals of Ethiopian origin or jointly by Foreign Nationals of Ethiopian origin and Ethiopian Nationals, located within or outside Ethiopia.

3. **Scope of Application**

The provisions of these Directives shall be applicable to existing Microfinance Institutions and Microfinance Institutions under formation.

4. **Share Subscription**

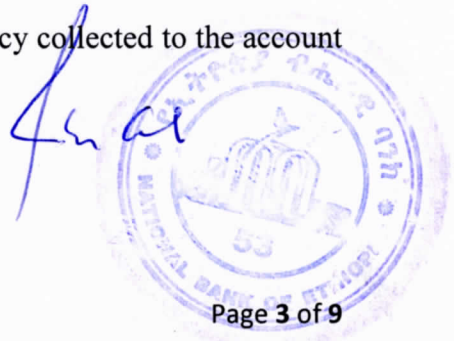
4.1. **Place of Share Subscription**

- 4.1.1 All subscriptions including initial and subsequent sales of shares to Foreign Nationals of Ethiopian Origin or organization shall take place only in the geographical territory of Ethiopia.
- 4.1.2 Notwithstanding the provision stated under sub-article 4.1.1 of this article, a Microfinance Institution or a Microfinance Institution under formation may conduct promotional and other related preliminary activities needed for share subscription outside Ethiopia.



4.2. Manner of Share Subscriptions and Surrender Requirement

- 4.2.1. A Microfinance Institution under formation shall submit written application to the National Bank to open foreign currency escrow account for the purpose of accepting share payment indicating the name of the bank and branch (es) where the account is to be opened; and shall report the account number so opened to the National Bank.
- 4.2.2. A bank instructed by the National Bank to surrender 30% (thirty percent) of the foreign currency that is maintained in line with sub-article 4.2.1 of this article shall surrender, to the National Bank, with in **five working days** from the receipt of the order.
- 4.2.3. Upon receipt of the foreign currency surrendered as per sub-article 4.2.2 of this article and the summary of the share subscription as per **Annex-I**, the National Bank shall credit the payment and settlement account of the bank with the equivalent amount of Ethiopian Birr at the prevailing mid exchange rate.
- 4.2.4. A bank instructed by the National Bank to unblock the foreign currency escrow account of a newly licensed Microfinance Institution shall transfer the Birr equivalent of the full amount of the foreign currency collected and maintained in the escrow account at a prevailing buying rate to the account of the newly licensed Microfinance Institution.
- 4.2.5. Notwithstanding the provisions stated under sub-article 4.2.1 herein above, a Microfinance Institution shall open a foreign currency bank account with the National Bank's approval for accepting share payment and share premium (if any) from Foreign Nationals of Ethiopian Origin or organization.
- 4.2.6. The bank that maintained the foreign currency account as per sub-article 4.2.5 of this article, shall surrender 30% (thirty percent) of the foreign currency collected from subscription of shares to the National Bank in accordance with Foreign Exchange Surrender Requirements of Banks (as amended) Directives No. FXD/54/2018 and transfer the Birr equivalent of full amount of the foreign currency collected to the account of the Microfinance Institution at the prevailing buying rate.



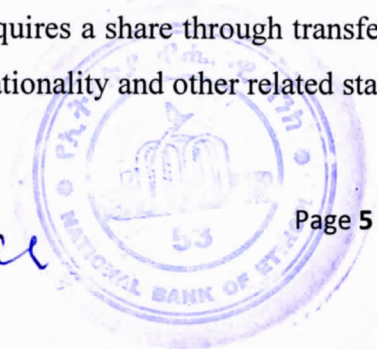
4.3. Payment of Share Subscriptions

- 4.3.1. Payment of the full value of initially subscribed shares and share premium (if any) by Foreign Nationals of Ethiopian Origin or organization shall be made in acceptable foreign currency.
- 4.3.2. Dividend generated from investment activities of Foreign Nationals of Ethiopian Origin or organization in other sectors and deemed eligible for repatriation by the National Bank can be used for the purpose of share purchase in a Microfinance Institution or a Microfinance Institution under formation.
- 4.3.3. The funds to be paid by Foreign Nationals of Ethiopian Origin or organization for the purpose of share purchase shall be transferred to the account opened and maintained in a bank for this purpose only through banking system.
- 4.3.4. Notwithstanding the provision stated under sub-article 4.3.3 hereinabove, Foreign Nationals of Ethiopian Origin or organization having a Non-Resident Foreign Currency Account with local banks may transfer the foreign currency deposited in this account for the purpose of share purchase.
- 4.3.5. Transfer of funds made by Foreign Nationals of Ethiopian Origin or organization for the purpose of share purchase through foreign payment cards, cash whether declared or not and international money transfer organizations that cannot generate credit advice at individual level showing the identity, amount and purpose of the transfer, shall not be allowed.
- 4.3.6. An Ethiopian National, who after acquiring shares in a Microfinance Institution changes his/her/its nationality after the effective date of these directives, may continue holding the existing shares and can also pay existing subscribed shares in Ethiopian Birr. However, subscription of new shares shall be made in acceptable foreign currency.
- 4.3.7. In the case of investment in a Microfinance Institution or a Microfinance Institution under formation by an organization owned by Ethiopian Nationals and Foreign Nationals of Ethiopian Origin, payment of share subscription in foreign currency shall be made to the extent of percentage shareholding of Foreign Nationals of Ethiopian Origin in that organization while the remaining subscription balance can be paid in Ethiopian Birr.

4.4. Verification and Validation of Subscribed Shares

- 4.4.1. A Microfinance Institution or a Microfinance Institution under formation that floats the shares shall assume the responsibility of ensuring compliance with sub-article 4.3 of these Directives.
- 4.4.2. A Microfinance Institution or a Microfinance Institution under formation shall ensure matters related to proper identification of the Foreign National of Ethiopian Origin or organization (including its shareholders), proper execution of bank transfer detail and documentation and submission of documents including list of subscribers, subscriber's nationality identification documents and foreign currency credit advice and any other related documents to the National Bank.
- 4.4.3. To ensure that the share subscription has been made in line with these Directives and other relevant laws, under formation Microfinance Institution that sold shares to Foreign National of Ethiopian Origin or organization shall ensure that the share subscriptions and related payments are audited along with the audit of pre-establishment costs and submit the report to the National Bank accordingly.
- 4.4.4. A Microfinance Institution shall develop comprehensive policies and procedures for handling of share subscription by Foreign National of Ethiopian Origin or organization. Accordingly, the policies and procedures, among others, shall address:
- Promotion and share subscription process;
 - Identification of Foreign National of Ethiopian Origin or organization (including its shareholders);
 - Payment details and modalities of share subscription;
 - Foreign currency surrender to the National Bank; and
 - Share transfer involving Foreign National of Ethiopian Origin or organization (including its shareholders).
- 4.4.5. A Microfinance Institution and a Microfinance Institution under formation shall ensure that a person or shareholders of an organization who acquires a share through transfer or any means holds a valid document evidencing his/her Nationality and other related status.

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5. Share Transfer

- 5.1. A share can be transferred from Ethiopian Nationals to Foreign Nationals of Ethiopian Origin or organization through sell in acceptable foreign currency transferred through banks at a share price not less than par value.
- 5.2. Shares shall not be acquired by Foreign Nationals of Ethiopian Origin or organization through donation.
- 5.3. Shares can be transferred from Ethiopian Nationals to Foreign Nationals of Ethiopian Origin through succession.

6. Dividend Payment

- 6.1. Dividends earned as a result of investment in a Microfinance Institution by Foreign Nationals of Ethiopian Origin or organization shall be paid in Ethiopian Birr, and shall not be repatriated.
- 6.2. Dividends earned in accordance with sub-article 6.1 of this article may be used for purchase and payment of newly issued and subscribed shares in the same Microfinance Institution.

7. Reporting

- 7.1. A Microfinance Institution under formation shall report summary of share subscription by Foreign Nationals of Ethiopian Origin or organization to the National Bank with supporting documents, as per sub article 4.4.2 and **Annex I** of these Directives along with application for microfinance business license.
- 7.2. A Microfinance Institution shall submit summary of share subscribed by Foreign Nationals of Ethiopian Origin or organization to the National Bank, as per sub article 4.4.2 and **Annex II and III** of these Directives, on a quarterly basis. In case of no subscription during the quarter, a Microfinance Institution may submit a “Nil” report.

8. Effective Date

These Directives shall be effective as of the **9th day of March 2020**.



Yinager Dessie (PhD)
Governor

Page 6 of 9

Annex I (For Under Formation MFI)

National Bank of Ethiopia

Summary of Share Subscription by Foreign Nationals of Ethiopian Origin or Organization

Name of the MFI under formation:

Reporting Period:

No.	Name of the Subscriber	Nationality	Passport No.	Number of Shares subscribed (A)	Par Value of Each Share (B)	Subscription Amount (in Birr) C= (A*B)	Paid up Amount (in Birr) (D)	Outstanding Shares E=(C-D)	Prevailing Buying Rate ¹	Remitted & deposited through SWIFT/NRFCA /MTO ²
				Total						
				Total Surrendered amount						

Prepared By.....
Position
Signature
Date

Approved By
Position
Signature
Date



¹ Prevailing buying rate is the rate on the date of deposit by the subscriber.
² Non-resident Foreign Currency Account/Money Transfer Organizations

Annex II

National Bank of Ethiopia

Quarterly Share Subscriptions by Foreign Nationals of Ethiopian Origin or Organization

Name of the MFI:.....

For the Quarter Ended:.....

No	Name of the Subscriber	Nationality	Passport No.	Number of Shares subscribed (A)	Par Value of Each Share (B)	Subscription Amount (in Birr) C=(A*B)	Paid up Amount (in Birr) (D)	Outstanding Shares (in Birr) E=C-D	Prevailing Buying Rate ³	Manner of Share Acquisition ⁴	Remitted & deposited through SWIFT/NRFCA/M TO ⁵
	Total										

Prepared By.....

Position

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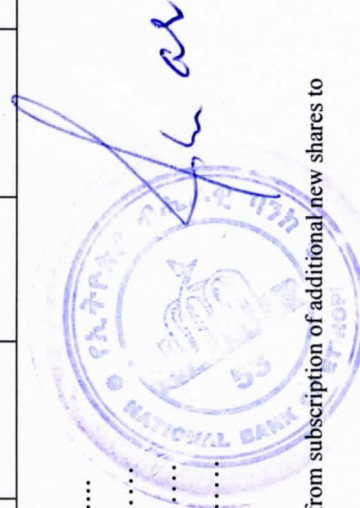
Date

Approved By

Position

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Date



³ Prevailing buying rate is the rate on the date of deposit by the subscriber.

⁴ Please indicate the manner of acquisition of shares by stating NN - if the issuance is new shares to new shareholder, NE if it is from subscription of additional new shares to existing shareholder, POS - if it is from payment of outstanding shares and ST - if it's from share transfer.

⁵ Non-resident Foreign Currency Account/Money Transfer Organizations.

Annex III

National Bank of Ethiopia

Cumulative Summary of Share Subscriptions by Foreign Nationals of Ethiopian Origin or Organizations

Name of the MFI:

For the Quarter Ended :

No	Name of the Subscriber	Nationality	Passport No.	Number of Shares subscribed (A)	Par Value of Each Share (In Birr) (B)	Subscription Amount (in Birr) C=(A*B)	Paid up Amount (in Birr) (D)	Outstanding Shares E=(C-D)	Remitted & deposited through SWIFT/NR/FC/MTO
	Total								
	Total Surrender Amount								

Prepared By.....
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