

Micro-finance Business (Amendment) Proclamation No 1164-2019

Proclamation No. 1164/2019

A PROCLAMATION TO AMEND MICRO-FINANCE BUSINESS PROCLAMATION

NOW, THEREFORE, in accordance with Article 55(1) of the Constitution of the Federal Democratic Republic of Ethiopia, it is hereby proclaimed as follows:

1.Short Title

“This Proclamation may be cited as Microfinance Business (Amendment) Proclamation No.1164/ 2019.”

2.Amendment

The Microfinance Business Proclamation No.626/2009 is hereby amended as follows:

1/Sub Article (3), (4) and (6) of Article 2 of the Proclamation are deleted and replaced by the following new Sub-Articles (3), (4) and (6):

3/“company” means a share company as defined under the Commercial Code, the capital of which is:

a)owned fully by Ethiopian nationals or foreign nationals of Ethiopian origin or jointly owned by Ethiopian nationals and foreign nationals of Ethiopian origin, or

1. b) organizations owned fully by Ethiopian nationals or foreign nationals of Ethiopian origin or jointly owned by Ethiopian nationals and foreign nationals of Ethiopian origin;

registered under the laws of, and having its head office, in Ethiopia;

4/ “compulsory savings” means mandatory deposits made for the purpose of enabling the individuals, groups or businesses making the savings to qualify to receive loans from an authorized institution and to serve as collateral against the loans so obtained;

6/ “financial institution” means insurance company, [bank](#), capital goods finance company, micro-financing institution, a reinsurer, a micro insurance provider, postal savings, money transfer institution, an institution providing financial service through digital channels or such other similar institution as determined by the National [Bank](#);

2/The following new Sub-Articles (18), (19) and (20) are added after Sub Article (17) of Article 2 of the Proclamation, and the existing Sub-Articles(18) is renumbered as Sub-Article (21);

18/“digital financial service” means financial services including payments, remittances and insurance accessed and delivered through digital channels.

19/ “Foreign National of Ethiopian Origin” means a foreign national of Ethiopian origin as defined under Proclamation No. 270/2002 providing Foreign Nationals of Ethiopian origin with certain rights to be exercised in their country of origin.

20/ “Liquid assets” shall include:

a)cash;

1. b) deposits with local [banks](#) and micro finance institutions;
2. c) other assets readily convertible into cash; and
3. d) Such other assets as the National [Bank](#) may from time to time declare to be liquid assets.

3/ Paragraph (g), (i) and (k) of Sub Article (2) of

Article 3 of the Proclamation are deleted and replaced by the following new paragraph

(g), (i) and (k):

1. g) “Supporting income generating projects of urban and rural micro and small scale operators or others engaged in productive activities;”
2. i) “Managing funds for micro and small scale businesses or other related productive activities;”
3. k) “Providing financial leasing service to lessees in accordance with Capital Goods Leasing Business Proclamation No .103/1998 and Capital Goods Leasing Business (Amendment) Proclamation No. 807/2013;”

4/The following new paragraphs (l), (m) and

(n) are added after paragraph (k) of Sub-Article 2 of Article 3 of the Proclamation, and the existing paragraph (l) is renumbered as paragraph (o):

1. l) Provide digital finance services;
2. m) Agent banking service; and
3. n) Provide interest-free microfinance service;

5/The following new paragraph (c), (d) and (e) are added after paragraph (b) Sub Article (1) of Article 8 of the Proclamation:

1. c) “The institution has become illiquid;
2. d) The institution has become insolvent ; or
3. e) The institution has failed to obey and operate in line with the law and directive or is unwilling to do so;”

6/ Sub Article (1) of Article 13 of the Proclamation is

deleted and replaced by the following new sub-article (1):

1/ “The auditor of any microfinance institution shall submit to the National [Bank](#) a complete audit report, including audit findings and recommendations and a management letter, within the time limit set in the National [Bank](#) Directive. In addition, the external auditor of a microfinance institution shall report its audit findings and conclusions to the shareholders of the institution. ”

7/ Sub Article (4) of Article 17 of the Proclamation is deleted and replaced by the following new Sub-Article (4);

4/ “register its amended memorandum of association and articles of association or alter the name under which it is licensed;”

8/The following new articles 26, 27, 28, 29, 30,

31 and 32 are added after Article 25 of the Proclamation, and the existing articles 26 to

30 are renumbered as Article 33 to 37, respectively:

26. **Financial Consumer Protection**

The National [Bank](#) may issue directive for protecting the right and interest of financial consumers.”

27. **Credit-Information-Sharing System**

The National [Bank](#) may issue directive for the establishment, operation, and cost apportionment of credit-information-sharing system among financial institutions including microfinance institutions.

28. **28. Regulation of Advertisement**

“The National [Bank](#) may at any time direct a microfinance institution to withdraw, amend, or refrain from issuing a paid radio or television announcement, a poster, billboard, brochure, circular or other document, and a paid advertisement in regularly published newspaper or magazine that it considers to be false, misleading, deceptive, or offensive.”

29. **Outsourcing of Critical and Important Functions**

“Minimum conditions for outsourcing of critical and important functions shall be determined by the directive to be issued by the National [Bank](#). For the purpose of this Article, “critical and important functions” of a microfinance institution include: functions related to deposits, loans, local money transfer, micro insurance and any other function as may be determined by the National [Bank](#). ”

30. **Digital Financial Services**

“Minimum conditions to provide digital financial services shall be determined by the National [Bank](#) directive.”

31. **Interest free microfinance service**

1) “Without prejudice to the requirements specified under the provisions of the Proclamation, the National [Bank](#) shall issue directive to prescribe additional conditions of licensing, supervision and requirements to establish Interest Free Microfinance Institution. For the purpose of this Sub-Article, “Interest Free Microfinance institution” means a microfinance institution licensed by the National [Bank](#) to undertake only interest free microfinance business.

2) Without prejudice to Sub Article (1) of this Article, the National [Bank](#) may issue directive to regulate microfinance businesses related to interest-free deposit mobilization and fund utilization within a conventional microfinance service

32. **Manner of Participation of Foreign Nationals of Ethiopian Origin in a Microfinance Business:**

1/“Without Prejudice to Article 25 of thi

Proclamation foreign nationals of Ethiopian origin or organizations owned fully by foreign nationals of Ethiopian origin, or jointly by foreign nationals of Ethiopian origin and Ethiopian nationals may be allowed to acquire the shares of an Ethiopian micro-financing institution or establish a micro-financing institution.

2/If a foreign national of Ethiopian origin holds a share directly in a microfinance institution or indirectly by holding a share in another organization that holds a share in a microfinance institution, in accordance with the provisions of Sub Article (1) of this article, a foreign national of Ethiopian origin or the organization in which he is shareholder, shall pay the values of the shares in a microfinance institution only in an acceptable foreign currency.

3/Notwithstanding the provisions of sub-article (2) of this article, all types of payments due to a foreign national of Ethiopian origin resulting from:

1. a) dividends earned from a share in a microfinance institution;
2. b) transfer of shares in a microfinance institution;
3. c) sales or liquidation of a microfinance institution; or
4. d) any other matters related to shareholding in a microfinance institution;

shall be paid in local currency, i.e., Birr, meanwhile, he shall not be allowed to repatriate any asset or interest obtained in this manner.

4/ The National [Bank](#) may issue directive related to additional conditions for investment in a microfinance institution by foreign nationals of Ethiopian origin. ”

9/ Paragraph (a) of Sub Article (3) of Article

12 and Sub Article (1) of Article 13 as well as paragraph (c) of Sub Article(2) of Article 14 of the proclamation are deleted.

10/ “Inspector” or “Inspection” mentioned in different parts of the proclamation is replaced by “Examiner” or “Examination” , respectively.

3.Effective Date

This Proclamation shall come into force on the date of publication in the Federal Negarit Gazette.

Done at Addis Ababa, this 9th day of January 2020.

SAHLEWORK ZEWDIE

PRESIDENT OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA