Transformative Banking Reform: A New Era for Foreign Banks

Description

By DMLF Team

The Ethiopian Parliament has approved a significant "Banking Business Proclamation," This Proclamation cited as the "Banking Business Proclamation No.1360/2024".which allows foreign banks to operate within the country, marking a trans-formative change in Ethiopia's financial sector. This legislation provides various pathways for foreign banks to establish a presence, including opening subsidiaries, branches, or representative offices, as well as acquiring shares in local banks.

To qualify for operations, foreign banks must be well-established and financially stable. They can set up fully or partially owned subsidiaries or open branches, while foreign nationals, excluding foreign banks and wholly foreign-owned Ethiopian entities, can also acquire bank shares under specific conditions. Strategic investors are limited to a 40% shareholding in domestic banks, whereas non-strategic foreign investors can hold up to 7%, and foreign legal entities up to 10%. Collectively, foreign ownership in any bank is capped at 49%. The National Bank has the authority to grant exceptions to these limits in cases where strategic investments could enhance economic benefits or assist struggling banks.

Investments must be made in foreign currency, although dividends can be reinvested in Ethiopian Birr, provided ownership limits are adhered to. Earnings from investments, salaries of foreign employees, and proceeds from share sales can be repatriated according to National Bank regulations. Foreign bank subsidiaries and branches are permitted to own property for banking activities, subject to local laws for other types of property. The National Bank will also issue directives to govern corporate governance and prudential standards for these institutions.

For foreign bank subsidiaries, the National Bank will set the minimum initial capital required, and the board must include representatives from the foreign parent bank and local non-shareholders. Foreign banks can open either deposit-taking or non-deposit-taking branches, but not both simultaneously. The National Bank will outline permissible activities for these branches, and foreign banks must ensure that adequate capital is remitted and converted into local currency. They are also responsible for the financial soundness of their branches.

Representative offices are restricted to non-operational roles such as marketing and research, as defined by the National Bank.

A bank, following approval from the National Bank, may recruit or transfer foreign nationals for CEO, Senior Executive Officer, or other specialized positions on a maximum five-year contract. The National Bank may set a limit on the number or percentage of foreign employees in a bank. After five years, the position must be filled by an Ethiopian national. However, the foreign national's contract may be extended for an additional five years if the bank provides adequate justification and obtains approval from the National Bank.

The foreign bank must ensure knowledge and skill transfer from foreign nationals to Ethiopian nationals, and foreign employees should be assigned in a way that promotes the transfer of knowledge and skills to Ethiopian nationals. If a foreign national is replaced by another foreign national, their service period cannot exceed the remaining term of the original service period. The bank must immediately remove a foreign national or foreign national director who fails to pass the National Bank's fit and proper tests, is involved in political affairs of Ethiopia, or is convicted of any offense involving a breach of trust or fraud in Ethiopia or elsewhere, and report this to the National Bank. According to the new law The National Bank may issue directives regarding additional conditions for employing or transferring foreign nationals in a bank.

In conclusion, opening the banking sector to foreign investment, when accompanied by a well-structured legal and regulatory framework, is thought to enhance the sector's competitiveness,efficiency,and knowledge transformation ultimately supporting sustainable economic growth.

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