

Central Banks

- ▶ The Central Bank in Ethiopia is called the National Bank of Ethiopia
- ▶ The National Bank of Ethiopia was reorganized by Proclamation No. 591/2008.
- ▶ Article 2(12) says NBE is a central bank of Ethiopia.
- ▶ Article 3 defines its legal status
- ▶ Under Article 4, the main purpose of the bank is
 - ▶ To maintain stable rate of price and exchange
 - ▶ Foster healthy financial system
- ▶ Article 5 lists the powers and responsibilities of NBE, among others,
 - ▶ Mint coin or print money,
 - ▶ Issue debt and payment instruments,
 - ▶ Determine the availability of money, interest rate,
 - ▶ License and supervise financial institutions,
 - ▶ Enact and implement foreign exchange policy and
 - ▶ Act as a banker, fiscal agent and financial advisor of the government.

National Bank of Ethiopia

- ▶ In terms of administration
- ▶ NBE has
 - ▶ Board of Directors,
 - ▶ Governor
 - ▶ Vice Governor
- ▶ Part three- on the r/n ship between NBE and Federal government- serve as fiscal agent and banker of government and provides credits and advances.
- ▶ Part four on the r/n ship b/n banks and NBE- licensing and registration, regulation and providing credits and advances. Art. 14 -16.
- ▶ Part five- on the r/n ship of NBE with anyone in the Country determining monetary unit and legal tender -Article 17 and 18
- ▶ Part six- on the r/n ship of NBE with international financial institutions- maintaining international reserve fund, Art- 19-21

Saving Banks

- ▶ Collect savings and that pay interest or dividends to savers.
- ▶ It channels the savings to borrowers.
- ▶ The mutual savings banks or trustee savings banks, savings and loan associations, credit unions, postal savings systems, and municipal savings banks serve this function.
- ▶ savings are invested mainly in government securities and other securities guaranteed by the government.
- ▶ This type of specialized banking service is not yet introduced in Ethiopia.

Investment Banks

- ▶ originates, underwrites, and distributes new security issues of corporations and government agencies.
- ▶ Purchase the new security issue from a corporation at one price and selling the issue in smaller units to the investing public at a price sufficiently high to cover expenses of sale and leave a profit.
- ▶ act as intermediaries between those with money to invest (investors) and companies or governments that need to raise capital.

Investment Banks

- ▶ **Capital Raising:** Investment banks help companies and governments raise money through various methods, including:
 - ▶ **Underwriting Initial Public Offerings (IPOs):** This involves helping a company sell its shares to the public for the first time. The investment bank guarantees to buy any unsold shares, minimizing risk for the company.
 - ▶ **Debt issuance:** They assist in issuing bonds, which are essentially loans made by investors to the company or government.
- ▶ **Mergers and Acquisitions (M&A):**
 - ▶ they advise companies on mergers with or acquisitions of other companies. They handle negotiations, valuation, and due diligence to ensure a smooth and beneficial transaction.
- ▶ **Financial Advisory:**
 - ▶ Investment banks provide expert advice on various financial matters, such as restructuring, valuations, and risk management.

Development Banks

- ▶ Can be a national or regional.
- ▶ designed to provide medium- and long-term capital for productive investment, often accompanied by technical assistance, in less-developed areas.
- ▶ The number of development banks has increased rapidly since the 1950s encouraged by the IBRD and its affiliates.
- ▶ Includes Inter-American Development Bank, the Asian Development Bank, the African Development Bank.
- ▶ One of the main activities of development banks has been the recognition and promotion of private investment opportunities.

- ▶ The Development Bank of Ethiopia is established with the purpose of providing long-term loans to agricultural and industrial undertakings, which are considered crucial in the development of the economy.
- ▶ It was intended to serve as the major financier for the various co-operatives and government owned farms and factories.
- ▶ Now it also provides long-term loans to private investors who are engaged in agricultural and manufacturing activities.

Islamic Banking

- ▶ a system of banking activity that is consistent with the Islamic law (Sheria).
- ▶ It is guided by principles of Islamic economics.
- ▶ Islamic law prohibits;
 - ▶ usury, that is, the collection and payment of interest (*riba* literally means increase or excess. It covers both usury and interest), and
 - ▶ investing in businesses that are considered unlawful, or harem (such as businesses that sell alcohol or others contrary to Islamic values).
- ▶ In late 20th century a number of Islamic banks were established.

Islamic Banking- ctd

- ▶ Muslim scholars have all recognized the need of commercial banks that use in profit and loss sharing mechanism and have proposed a banking system based on the concept of mudarabah (profit and loss sharing).
- ▶ The Islamic development bank, an inter-governmental bank established in (1975) was born..
- ▶ In most countries the establishment of interest free banking had been by private; in Iran and Pakistan, however, it was undertaken by government initiative and covered all banks in the country.
- ▶ Making money from money is not Islamically acceptable; money is only a medium of exchange.

Islamic Banking- ctd

- ▶ Islam allows only one kind of loan and that is qard-el hassan (literally good loan),
 - ▶ It is a benevolent loan extended to those in need, based on the principles of Islamic finance (Sharia).
 - ▶ Unlike conventional loans, qard-el-hassan does not involve any interest payments on the borrowed amount.
 - ▶ The term "hassan" translates to "good" or "of good faith," emphasizing the charitable nature of the loan.
 - ▶ The borrower is expected to repay the principal amount borrowed within a specified timeframe.
 - ▶ Qard-el-hassan loans are often used for various purposes, including:
 - ▶ Helping those facing financial difficulties
 - ▶ Supporting small businesses
 - ▶ Funding essential needs like education or medical care

Commercial Bank

- ▶ Deals in money and in substitutes for money, such as checks or bills of exchange.
- ▶ Borrows from individuals, firms, and governments—i.e., receiving “deposits” from them.
- ▶ Makes loans or extends credit and invests in securities.
- ▶ The banker makes profit by charging interest and commissions for services rendered.
- ▶ also offers a wide variety of additional services to its customers, including savings deposits, safe-deposit boxes, and trust services.

Banks and Banking Transactions in Ethiopia

- ▶ Book IV Title III of the Commercial Code of Ethiopia which deals with banking transactions
- ▶ Proclamation 592/2008 as amended by Proclamation No. 1159/2019; .
- ▶ Article 2(2) defines what includes banking business
- ▶ On the other hand, the term bank is defined, under Art 2(1)
- ▶ In addition to this, Art 4(1) of the same proclamation clearly prohibits foreign nationals and business organizations from undertaking banking business in Ethiopia.
- ▶ The definition of a bank and Article 9 exclusively reserve the banking sector to Ethiopian nationals

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- ▶ Licensing requirement
 - ▶ Article 4
 - ▶ Share company
 - ▶ 1/4th of the shares must be paid in cash
 - ▶ Minimum paid up capital of 5 billion birr
 - ▶ The management of the bank shall fulfill the requirements of NBE
 - ▶ The influential shareholder can only hold maximum of 5% - Article 11
 - ▶ Currently we have more than 26 banks
- ▶ The NBE regulates the manner of acquiring and transferring shares, conducting meetings, appointment and removal of directors preparation of financial statements, audit reports, appointment of auditors, and e.t.c

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- ▶ The NBE regulates the minimum capital required to be maintained by banks, the maintenance of legal reserves, adequate liquidity, limitation on certain transactions, and etc.
- ▶ It also inspect banks.
- ▶ In the case of revocation of license and insolvency of a bank, the NBE plays a huge role in the appointment of the receiver and handling of tasks. Article 32-48 of the Proclamation.

CHAPTER TWO: MAJOR BANKING TRANSACTIONS

1. Deposit of Funds

- ▶ See Article 896 to 902
 - ▶ Established by a contract
 - ▶ The depositor agrees to deliver and transfer the ownership of specified amount of money to a bank;
 - ▶ The bank agrees to repay them under the conditions agreed upon in the contract or on the demand of the depositor.
- ▶ The right of the depositor to demand repayment is limited to the amount of money held in account in his favor and he does not have the right to overdraw his account.

- ▶ The contract of deposit of funds results in the opening of an account in the name of the depositor by the bank.
- ▶ The account can be
 - ▶ a current account
 - ▶ in which the depositor has the right to dispose of the deposit at sight or on demand.
 - ▶ This type of account also is a check operated account As the repayment may be demanded at any time,
 - ▶ this type of deposit does not bear interest. / Art 897, 898. /
 - ▶ a saving account,
 - ▶ is interest bearing and
 - ▶ the right of the depositor to demand repayment may be limited. / Art 897, 98. /
 - ▶ Special account
 - ▶ Such **as a time deposit or account**
 - ▶ the depositor cannot demand repayment or withdrawal before the lapse of the agreed period of time.
 - ▶ This type of deposit normally bears interest at a rate agreed upon Art 897, 898 (2)

2. Bank Transfers

- ▶ Art 903 to 911
- ▶ is a transaction made based on instruction of a bank to debit one depositor's account and credit another's account with a specified amount.
- ▶ The transferor cannot order the bank the transfer of an amount which exceeds the balance.
- ▶ The transfer made exceeding the balance considered as a loan or overdraft provided by the bank to transfer. / Art 905, 908, 899, 945 of the Commercial Code & Art 2471 of the Civil Code/.
- ▶ The transferor may cancel the transfer at any time before his account is debited and before the transferee acquires ownership right to the money.
- ▶ In a bank transfer, ownership of the money shifts to the receiver (transferee) when the sender's (transferor's) account is debited, even though the receiver's account may not be credited instantly.

3. Deposit of Securities

- ▶ is a contract whereby an owner or of securities agrees to deposit the securities with a bank which agrees to provide safe custody and handle or manage them for consideration.
 - ▶ banks keep securities in their custody,
 - ▶ perform all functions relating to them such as the collection of yields arising from securities deposited, i.e., dividends from shares/stocks, capital repayments and interest arising from bonds - Art 912 and 914,
 - ▶ handle purchase and sale of securities in the name and on behalf of the depositor,
 - ▶ the bank which deposits securities has the duty to handle the securities deposited,
 - ▶ It has the duty to deposit the money collected by entering them in the deposit account of the depositor of the securities. (Art 912 and 913(2)).
 - ▶ The bank must also take necessary measures and comply with formalities necessary to preserve the rights, arising out of securities such as renewal of coupon and payment of stamp duty.

4. Hiring of Safes

- ▶ Banks take charge of valuables by providing safes for their customers'.
- ▶ The items to be deposited can be valuables like jewelry, negotiable securities, and documents of title to properties, will, and deposit.
- ▶ Valuables can be deposited by Banks in two ways:
 - ▶ **By accepting the valuables for safe-custody or**
 - ▶ **By hiring out safe deposit boxes to their customers:** a contract whereby a bank agrees to place at the disposal of the hirer a safe or a compartment of a safe for a specified period of time on payment of a rent.
- ▶ In both cases the bank and the customer execute a contract specifying the conditions on which the safe will be hired the contract includes the customer's duty to pay rental charges and the method of payment.

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- ▶ The bank has the duty to prepare a room where the safes are to be kept
 - ▶ take the necessary measures to ensure the up keep and safe custody of safes.
 - ▶ the bank is under no obligation for the deterioration or damage of the contents of the safe.
 - ▶ the hirer may not deposit things that are dangerous by themselves such as explosives, inflammable things, narcotic drugs, guns and legal tender currency,
 - ▶ Violation of this prohibition is a ground for the cancellation of the contract by the bank. /Art 922/
 - ▶ The bank is obliged to allow the hirer or his agent to have access to the safe by providing him with keys and identification cards during working days and of hours of business. /Art 921/

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- ▶ the hirer is obliged to pay the rent on time and return the keys to the safe by emptying the contents of the safe upon termination or cancellation of the contract. /Arts 919 and 923/1//
 - ▶ The contract can be terminated if the hirer fails to pay a rent within a period of one month from the date of notice by registered letter given by the bank.
 - ▶ Where the hirer fails to pay a rent for a single term, the bank demands payment by a registered letter.
 - ▶ here the hirer fails to appear on the fixed date and time or refuses to return the key and give up his safe by removing his deposits, the safe shall be forced open in the presence of a court official who shall draw up a descriptive report of the contents of the safe which shall constitute a conclusive evidence as regards all interested parties. /Art 923/2/.

5. Discount

- ▶ is a contract
- ▶ a bank agrees to pay to a holder of a commercial instrument or security having a future date of payment
- ▶ an amount which is lesser than its actual value,
- ▶ against the surrender of the instrument and
- ▶ the undertaking to repay the value of the instrument by the holder where payment is not made at the maturity of the instrument.. /Art 941. /.

- ▶ The amount of commission and interest charged by the bank shall be calculated by taking into account the time remaining until maturity of the instrument and the value of the instrument respectively. /Art 941/2/ and 942/
- ▶ The bank shall acquire all the rights of the beneficiary of discount on the instrument including the right to demand payment from the person or persons who are liable on the instrument.
- ▶ If the bank is not successful in its claim for payment at maturity, it will have two alternative remedies, Art 944(1).
 - ▶ It may proceed against parties liable on the instrument under Art 790 of the commercial code, or the company which issued the share or bond, or
 - ▶ It may proceed against the beneficiary of the discount on the basis of the contract of discount (Art 941(1) and 943).
- ▶ The right of the bank is limited to the amount of money it has paid to the beneficiary plus commission, interest and expenses (944(2)).

6. Bank Lending

- ▶ is one of the most common and traditional functions of banks
- ▶ Art 2471 of the Civil Code, which also applies to loans provided by banks, defines a contract of loan of money or other fungible things
 - ▶ A contract
 - ▶ the lender, undertakes to deliver to the other party,
 - ▶ the borrower,
 - ▶ a certain amount of money or other fungible things and
 - ▶ to transfer to him the ownership thereof
 - ▶ on the condition that the borrower will return to him as much of the same amount and quality.
- ▶ Art 945.

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- ▶ An open credit
- ▶ overdraft loan
- ▶ All types of bank loans are given following certain procedures:
 - ▶ KYC- The bank under all cases must assess the credit-worthiness of the customer.
 - ▶ Collateral:

7. Documentary Certificates

- ▶ Available for importers who need to pay the price of goods in foreign exchange.
- ▶ An importer has to apply to a bank to open a letter of credit in which the seller of the goods is the beneficiary.
- ▶ After acceptance by the bank, it opens the letter of credit equivalent to price of the goods and transmits or communicates it to a bank with which it has a correspondence.
- ▶ The correspondent bank, which has received the letter of credit, shall notify the seller/beneficiary of the credit.

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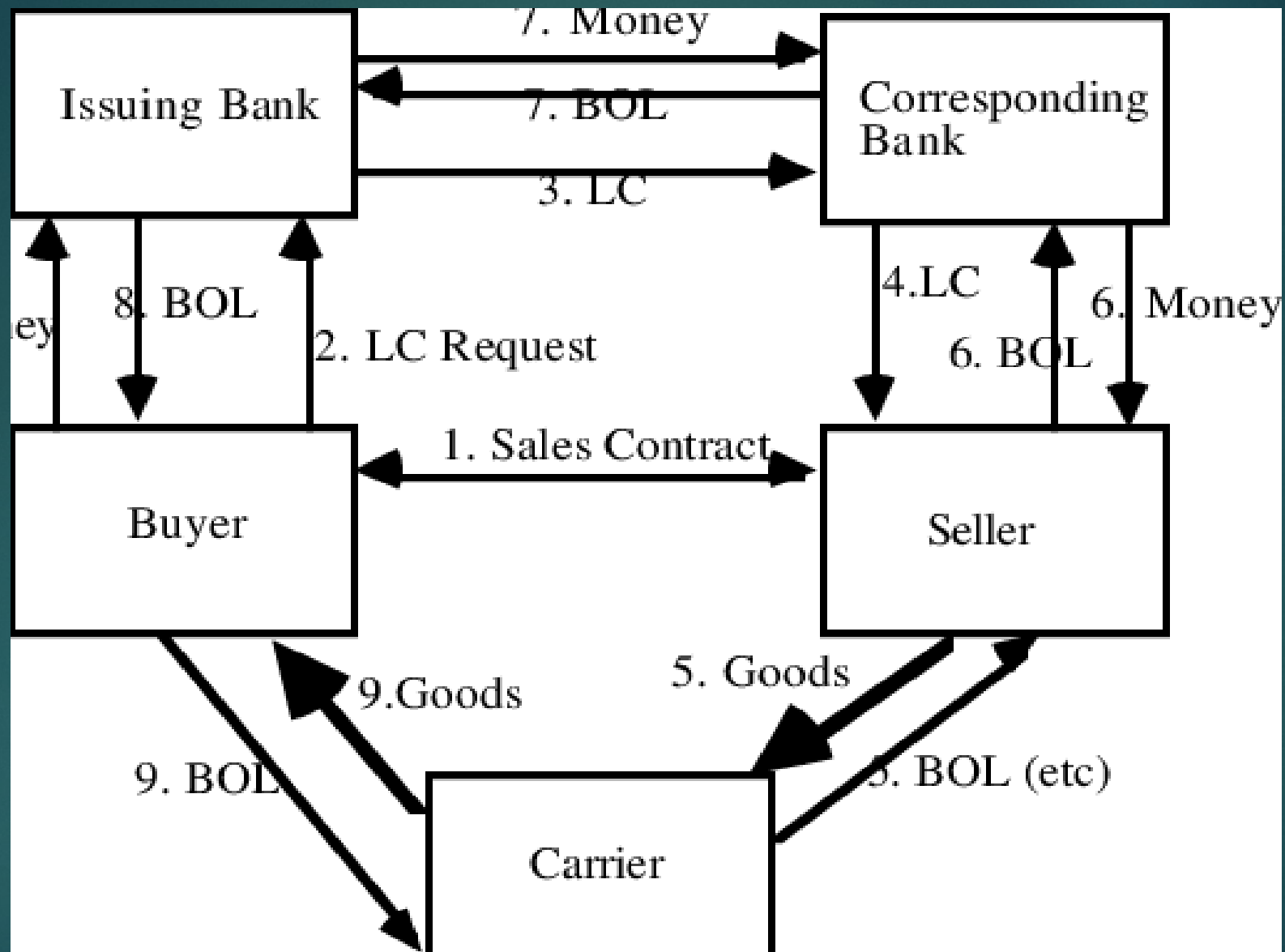
- ▶ And the correspondent bank shall pay the price of the goods to the beneficiary of the credit after receiving documents representing the goods such as
 - ▶ an invoice,
 - ▶ a bill of lading,
 - ▶ a packing list and
 - ▶ an insurance policy covering risks associated with transportation
- ▶ The payment may also be made to third parties such as holders of bills of exchange /Art 965,966.

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- ▶ The correspondent bank shall send the documents it has received from the seller to the opening bank.
- ▶ The opening bank will hand over these documents to the importer after receiving the amount equivalent, in Ethiopian Birr, to the amount paid to the seller, interest and service charge (commission) for the service provided.
- ▶ In principle, the opening bank is entitled to hold and dispose of the goods imported and recover the amount of money it or its correspondent has paid plus interest and service charge or commission, in the event when the importer failed to pay.
- ▶ Art 959/

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- ▶ Art 961 recognizes two types of document credits:
 - ▶ **Revocable credits,**
 - ▶ do not constitute a binding agreement between the opening bank and the beneficiary.
 - ▶ it may be modified or cancelled by the opening bank at any time by a notice communicated to the correspondent bank prior to payment or negotiation, or the acceptance bills there under by the latter.
 - ▶ All documentary credit is presumed to be revocable / Art 962,961. /
 - ▶ **Irrevocable credits:**
 - ▶ represent a definite undertaking between the opening bank and the seller/beneficiary or good faith holders of bills of exchange, drawn by the beneficiary.
 - ▶ Hence, the bank is obliged to pay the money specified in the credit.





Thank you.