



## THE PRINCIPLE OF CORPORATE GOVERNANCE IN THE ETHIOPIAN FINANCIAL SECTOR- A COMMENTARY

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### ABSTRACT

The financial sector of every economy accounts to half or even two third of the economy of a country. Despite almost two decades of deregulation and privatization in Ethiopia, the private sector still lives in the state's shadow and has relatively limited access to finance and markets. The private sector firms in Ethiopia usually have close ties with the state sector and prosper on the peripheral of the state sector. They are not only influenced by state sentiment but also have to budget their capital expenditure or production schedules accordingly. As a means to protect and ensure the expansion of the financial sector, states come up with the concept of corporate governance and other quality principles to the efficient management of the various segments of the financial sector. Among other problems, the reliance on corporate governance has been dictated by economic crisis and financial depreciation faced by states on numerous occasions, which in turn required states to develop the financial sector by assuring transparency and accountability in corporate governance. This article will discuss the major laws and principles of corporate governance enshrined in the Ethiopian financial sector.

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### INTRODUCTION

Corporate governance is the internal means by which corporations are operated and controlled. It can be briefly defined as the blood vessel of the company. Although every share company is led by its own management structure which is mainly composed of the board of directors, the recent practices in the financial sector reflect that the regulatory hands of the state via the instrumentality of the national bank is increasing [1]. It is an open fact that the national bank is the fiscal agent and banker for the government [2]. Involvement of the National Bank in corporate governance of banks is triggered by the importance of the sector to the economy of a country and its sensitive nature (prone) to crisis. Due to this fact, it would not be wrong to conclude that the issue of corporate governance is not only left to the immediate management organs of a company but also to the regulatory hands of the government. No one can contest government's central role in shaping the legal institutions and regulatory climate and within each sector also develops its own system of governance (board of directors, managers, shareholders, auditors and so on) [3].

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However, the depth and the scope of the interference have always been contested (though not totally denied). The type of relationship that exists among those organs that participate in corporate governance affects the efficiency of the available system of corporate governance. Controlling shareholders, which may be individual, family holders, company or institutional shareholder or block alliances or other corporations acting through a holding company, can significantly influence corporate behavior. For they are owners of a considerable amount of equity, institutional investors are increasingly demanding a voice in corporate governance. Comparatively, individual shareholders usually do not seek to exercise governance rights but they may be highly concerned about obtaining fair treatment from controlling shareholders and management. Even the influence of creditors on governance of a company should be considered seriously. Nevertheless it is the government which establishes the overall institutional and legal framework for governance of banks via the instrumentality of the national bank, the role of each stakeholder and their respective interaction is a determinant factor in corporate governance.

### Corporate Governance in the Ethiopian Banking Sector

**The Role of the Board in Corporate Governance of Banks:**  
According to article 2 (9) of the banking business

proclamation banks are financial institutions that are licensed by the NBE to undertake banking business in Ethiopia [4]. It is explicit from the declaration of the proclamation that, as a high profile business, banking business can only be operated in the form of a share company. Even among the share companies banks are special kinds of share companies considering their special requirements of formation and operation. The directors of the bank are then those individuals who are the members of the board of directors of a bank and they may be referred to by different titles as per the need of the situation [5]. The corporate governance framework to be designed by the board should ensure the strategic guidance of the bank, the effective monitoring of management by the board and the board's accountability to the company and the shareholders. The members of the board of director of banks should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the bank and its shareholders. The power of the directors of a bank are given to them by law, the memorandum and article of association or by general resolution passed at meetings of the shareholders. It is left to the articles of association of the banks to specify whether the directors are jointly responsible as managers or agents of the company or whether one of the directors is responsible. If the directors were acting as agents for the company, they may exercise in its name the powers conferred up on them. However, any restriction on the power of directors shall not affect third parties acting in good faith with the concerned banks [6]. As all shareholders of banks are entitled to one class of shares with the same per value, the board is at duty to treat all the shareholders firmly [7].

The board of directors of banks shall be responsible for exercising the duties imposed on them by the applicable laws, the statutes of the company and resolutions of meetings, with the care due from a paid agent. They should always take in to consideration the interests of the shareholders in due course of undertaking their functions. If damage is caused to the bank due to a failure attributable to the directors, they are jointly and severally liable to the bank. In such case, the directors are expected to act with due care in relation to the general management of the bank. If the directors failed to take all steps within their power to prevent or mitigate acts prejudicial to the bank's interest, which is within their knowledge, they shall be jointly and severally liable to the bank. However, unless otherwise a director is at fault and has not caused a minute dissecting from the action which has been taken by the board to be entered forth with in the directors' minute book and sent to auditors selected by the national bank s/he shall not be liable to the bank. If the interest of third parties involved with the bank has been infringed by the fault or fraud of the directors, the later shall be responsible. Moreover, any shareholder of a bank whose right has been injured by the act of a director has the right to sue such a director [8].

Due to the fact that banks are financial institutions with a delicate and dynamic business, the board of directors of such banks should properly exercise its function of reviewing and guiding corporate strategies of the bank, major plans of action of the bank, risk policy of the bank, annual budgets and business plans of the bank. They should set performance objectives of monitoring and implementation of the bank's performance; and take oversee major capital expenditures, acquisitions and divestitures [9]. All of the major activities of banks shall be done in line with the directives of the national bank and especially, the following activities require

consistency with the various directives of the national bank: selection, compensation, monitoring, and when necessary replacing chief executive officers; overseeing succession planning; reviewing key executive and board remuneration; insuring a formal and transparent board nomination process; monitoring and managing potential conflict of interest of management, board members and shareholders of the bank including misuse of the bank's asset and abuse in related party transactions; and Integrating the bank's accounting and financial reporting systems (especially to the national bank) including the independent audit and the appropriate systems of control are in place. In particular, systems for monitoring risk, financial control and compliance with the law shall be put in place. They should also adopt effective and flexible governance practice. Board of director of banks should give lion share of attention to the process of disclosure and communication of important information to the NBE [10]. Banks in Ethiopia adopt two tier boards. This should help the board to be able to exercise objective judgment on corporate affairs independent in particular from management. To be beneficiary or division of role and skill, the board should consider assigning sufficient number of non-executive board members (as different from executive officials or senior executive officials) capable of exercising independent judgment to tasks which are the potential sources of conflict of interest. Financial reporting, nomination and fixing of executive and board remuneration are among the key responsibilities of such officials. As the brain of the bank, directors should always assure that they have acquired access to accurate, relevant and timely information and should devote sufficient time to their responsibilities [11]. When compared with the governance capacity and scope of the board of directors of banks, the depth, power and authority of the national bank in governing and regulating a bank, its board and all of its activities is much broader. Due to this, the national bank plays unlimited role in assuring corporate governance by fixing various rigorous formalities to be followed by the board of directors of other banks in the country.

Accordingly, to secure conformity with the requirement of the national bank, the members of the board of other banks are at duty to guarantee qualification of competency, possess the required education, experience, fitness and propriety determined by directives issued by the NBE. The qualification criterion also holds true to chief executive officers and other senior officers of banks [12]. Regarding the requirements of appointment attached to the directors of banks, every director shall be a person with honesty, integrity, diligence and good reputation to the satisfaction of the national bank. Banks may appoint directors, chief executive officials or senior officers before, after or at the time of licensing. However, such appointment may not be valid unless the national bank issues a written approval to that effect [13]. Moreover, the terms of office of outgoing directors of a bank shall not be terminated until a written proposal for the incoming directors is guaranteed by the national bank. Besides, the national bank is vested with the power to set the minimum number of directors in the membership of the board of a bank.

The duties, responsibilities and good corporate governance by the board of directors of a bank is subjected to regulation by the national bank. The national bank can also fix the maximum number of years a director may serve in any bank and the powers of the national bank is also extended to fixing the condition for re-election, the maximum remuneration,

maximum number of employees of the bank who may be elected and serve as members in the board of directors of such bank [14]. Any person who has been convicted of any offence involving a breach of trust or a fraud whether in Ethiopia or elsewhere may not be a director or an employ of a bank. In addition, no person who was a director, chief executive officer or senior executive officer or otherwise directly or indirectly participated in the management of any bank that has failed whether in Ethiopia or abroad may act as a director, chief executive officer or senior executive officer or otherwise directly or indirectly participate in the management of a bank without securing prior approval of the national bank. Not only this, a director or chief executive officer of another financial institution is prohibited from simultaneously being a director of a bank [15]. In addition, a business entity or a company in which such director or officer has 10 percent or more equity interest may not serve as a director of a bank [16]. With respect to the grounds of removal of directors according to the requirements set by the national bank members of the management of a bank shall cease to participate in banking management functions if [17]:

- The company in which he directs has instituted bankruptcy proceedings or is declared bankrupt or the assets have been sequestered because of bankruptcy or foreclosed by a bank because of failure to repay a loan granted by the bank;
- A director has been convicted of default on repayment of a bank or other credits or tax payment;
- A director or a company he directs carries non-performing loans, as defined by directives of the national bank from any bank;
- A director fails to fulfill any of the qualifications of competency requirements set by the national bank.

The NBE is also vested with the power to suspend a director or remove him or her up on sufficient grounds, which may constitute the following [18]:

- Failure to comply with article 15 and 16 of proclamation number 592/2008; and
- Any action of a director which is detrimental in the opinion of the national bank, to the stability or soundness of the financial sector, the economy or the general public interest.

Furthermore, the NBE is also vested with the power to replace a removed director's post in case the board members are less than the legal minimum having assumed the powers of the board of directors within 30 days. However, it is left to the board to fill the vacant post because of removal of chief executive officers or senior executive officers. A person who obstructs the proper performance by an auditor of his duties in accordance with the provisions of this proclamation or inspection of a bank by an inspector or duly authorized by the national bank shall be punished with a fine from 50000 to 100000 Birr and with rigorous imprisonment from 10 to 15 years [19].

### **The Rights of Shareholders of a Bank**

The corporate governance framework of banks should protect shareholders' right. Basic shareholders right includes the right to secure methods of ownership registration, transfer of shares, obtain relevant information about the company on a timely and regular basis, participate and vote in general shareholders meetings, elect members of the board and share in the profits

of the corporation [20]. Every shareholder has the right to participate in the annual net profits and to share the net proceeds of the bank. However, such share in the profits or in the net proceeds on the winding up shall be calculated in proportion to the amount of capital held. Every share shall confer a voting right. Every shareholder has a preferred right in proportion to his holding, to allotment of cash shares issued on an increase of capital. Shareholders have preferred right of subscription during future sale of shares [21]. Shareholder in a bank have the right to participate in and to be sufficiently informed on decisions concerning fundamental corporate changes such as: amendments to the statutes or articles of incorporations or similar governing documents of the company; the authorization of additional shares and extraordinary transactions that in effect result in the sale of the company. Besides, shareholders should have the opportunity to participate effectively and vote in general shareholders meeting.

To that effect, they should be provided with information, opportunities to ask questions and vote personally or in absentia. For the nature of banks do not appreciate preference-shares, capital structure and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed. The rules and procedures governing the acquisition of corporate control in the capital market and extra ordinary transactions such as mergers and sales of substantial portions of corporate assets should be clearly articulated and disclosed. So that investors understand their rights, recourse transactions should occur at transparent prices and under fair conditions that protect the rights of all and they should consider the costs and benefits of exercising their voting rights [22]. Pursuant to article 2 (11) of the banking business proclamation, a person who directly or indirectly possesses 2 percent or more of the total subscribed capital of a bank is deemed to be an influential shareholder. However, influential shareholders of the bank shall meet the fitness and propriety criteria prescribed by the national bank [23].

As a preferential treatment to Ethiopian nationals, shareholders or owners of the organization (banks) shall be fully Ethiopian nationals. Foreign nationals may not be allowed to open a bank or branch offices of subsidiaries of foreign banks in Ethiopia or acquire the shares of Ethiopian banks [24]. Any transfer of shares that makes any person influential shareholder shall be approved by the national bank before such transfer is recorded in the register of shares. Or otherwise any of such unrecorded transfer of shares shall be null and void. Besides, the register should be accessible to the reach of the public [25]. This is among the mechanisms put in place to avoid dominance of shareholders. Accordingly, no shareholder have a right to hold more than 5 percent of a bank's total shares either on his own or jointly with his spouse or with a person who is less than 18 years old and in consanguinity related to him in the first degree [26]. However, I should make a point here that one cannot at least infer the same from article 306 (2) of the commercial code. Moreover, as a counter obligation to the rights, article 3.3.2 of Directive No. SBB/39/2006 requires names, addresses and occupation of the founder shareholders.

### **The Equitable Treatment of Shareholders in Bank Governance**

The general rule is the corporate governance framework should ensure the equitable treatment of all shareholders

including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights. This is consistent with the general declaration of the commercial code [27]. However, as per article 9 of the banking business proclamation foreigners are not beneficiaries of such treatment and in addition, article 10 of the same proclamation prescribes that shareholders of the bank are entitled to one class of shares. As a result, the gap between minorities and majorities seems to be vague. In order to assure such equitable treatment, members of the board and managers should be required to disclose any material interest in transactions or matters affecting the corporations. The treatment is also to be extended to the general meeting especially with respect to the banks procedure, easy vote casting methods and so on. Moreover, insider trading and abusive self-dealing should be prohibited [28]. Banks should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders to exercise their rights by effectively communicating information that is understandable, accessible, and encouraging shareholders to participate in general meetings [29].

### **The Role of Stakeholders in Corporate Governance of Banks**

The corporate governance framework of banks should recognize the right of stakeholders as established by law and encourage active cooperation between banks and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. Banks should recognize that they have legal and other obligations to all legitimate stakeholders. The stakeholders may include suppliers, employees, creditors, customers, and the community at large. Good corporate governance of banks helps to recognize whether it has taken in to account the interests of a wide range of constituents as well as of the communities with in which they operate. This in turn helps to assure that banks operate for the benefit of society as a whole. It helps to maintain the confidence of investors both foreign and domestic and to attract more sustainable, long term capital [30]. In general, the bank's corporate governance framework should assure that the rights of stakeholders which are protected by law are respected where those holders' interests are protected by law. Stakeholders should have the opportunity to obtain effective redress for violation of their rights. The framework should permit performance-enhancing mechanisms for stakeholder's participation to enable them access relevant information [31].

### **Disclosure and Transparency**

The corporate governance framework of banks should insure that timely and accurate disclosure is made on all material matters regarding the bank including the financial situation, performance, ownership and governance of banks. According to article 23 (1) of the Banking Business Proclamation, the NBE may direct banks to prepare financial statements in accordance with the international financial statement standards i.e., whether their designation changes or they are repealed from time to time. In addition, the banks shall keep such records, as are necessary to exhibit clearly and correctly, the state of its affairs, explain its transactions and financial position which is to be made according to national banks requirement [32]. With respect to disclosure of information, every bank shall with in a time period to be determined by the national bank, send to the national bank duly signed financial

statements and other reports prescribed by it. Banks should exhibit a copy of the last audited balance sheet and profit publishing of financial statements. Even, the national bank is vested with the power to collect any information from banks, as it may deem appropriate [33]. The board of directors of a bank shall, jointly or severally, immediately report in writing to the National Bank where the following happened or likely to happen that the bank [34]:

- Cannot meet its obligations to its depositors or other creditors; or is possibly unable to make payments on time to depositors or other creditors;

As per the UNO guide line on corporate governance, the banks should fully disclose significant transactions with related parties. The objectives of the enterprises should be disclosed. The beneficiary ownership structure of the bank should be fully disclosed to all interested parties. Moreover changes in the shareholding of substantial shareholders in the bank should be disclosed to the market as soon as a bank becomes aware of them. Disclosure should be made of the control structure and of how shareholders or other members of the bank can exercise their control rights through voting or other means. Any arrangement under which some shareholders may have a degree of control disproportionate to their equity ownership, whether through differential voting rights, appointment of directors or other mechanisms should be disclosed. Rules and procedures governing the acquisition of corporate control in the capital markets and extra ordinary transactions such as mergers and sales of substantial portions of corporate assets should be disclosed. In the interest of protecting minority shareholders, the principle of "equality of disclosure" should be practiced, such that all shareholders receive information equally. The composition of the board should in particular disclose the balance of executive and non-executive directors and so on [35]. Information should be prepared, audited and disclosed in accordance with high quality standards of accounting, financial and non-financial disclosure and audit. An annual audit should be conducted by an independent auditor, in order to provide an external and objective assurance on the way in which financial statements have been prepared and presented. The transparency shall also be extended to providing for fair, timely and co-efficient access to relevant information by users [36].

### **Corporate Governance in the Ethiopian Insurance Sector**

According to article 3 of Proclamation number 86/94, insurance companies always take the forms of share companies as defined under article 304 of the commercial code of Ethiopia, in which the capital is wholly owned by Ethiopian nationals and registered under the laws of Ethiopia and having its head office in Ethiopia. Similar with the banking sector, insurance companies shall be governed by the board of directors and are subjected to the general regulations of the national bank of Ethiopia [37].

### **Responsibility of the Board in the Governance of Insurance Companies**

The director of an insurance company shall mean any person, by whatever title he may be referred to, carrying out or empowered to carry out sustainably similar functions in relation to the governance carried out by a director of share companies under the commercial code [38]. The board of

directors of an insurance company is at duty to come up with the governance framework which is the basis to insure the strategic guidance of the company, the effective monitoring of management and the board's accountability to the company and the shareholders [39]. It is always a precondition to good governance that the act of the directors is based on a fully informed basis, good faith, with diligence and care. For they are entitled to equality of share, the board should administer and govern the members of the insurance company without discrimination or provide fair treatment [40]. As per article 363 of the commercial code, the power of the directors of insurance companies emanate from either the law, the statutes of the company (by laws), and the resolutions passed by general meetings. Because the main owners of the company are the members every act of the directors should also consider the interest of the stakeholders (customers, employees, the community). Otherwise, it will constitute a fault and entails liability according to articles 364-66 of the commercial code. Moreover, the board shall make sure effectiveness of governance practices under which it operates and making changes as per the need of the situation, the board also reviews powers of key executive and board remuneration and ensure a formal and transparent board nomination process.

According to articles 356 and 409 of the commercial code, the directors should duly manage potential conflict of interest of management, board members and shareholders including misuse of the company's assets and abuse in related party transactions. It is also the duty of directors to see to it that the integrity of the insurance companies accounting and financial reporting systems including the independent audit and the appropriate system of control are in place. This in turn depends on system of monitoring risk, financial control, and compliance with the law. Two-tier boards lead insurance companies. Hence the board of directors should be able to exercise objective judgment on corporate affairs being independent, in particular from management. Hence, it is necessary to assign non-executive board members capable of exercising independent judgment to tasks where there is a potential for conflict of interest, like responsibility on financial reporting, nomination and executive and board nomination [41]. The nature of the responsibility also determines the strength of the qualification to the post. Accordingly no person who has been adjudged bankrupt as a sole trader or partner or manager of a company or has been convicted of an offence under any of the provisions of the penal code of Ethiopia other than petty offences shall be eligible for appointment as a director of an insurance company [42]. However, even if the board is vested with the power to ensure good corporate governance, the regulatory interference activities of the national bank are exaggerated and much broader than the formers power of governance. Relatively, the regulation by the national bank on insurance companies is lesser than the banking sector [43].

### **The Right of Shareholders in Corporate Governance of Insurance Companies**

Because the shareholders are the ultimate owners of the insurance companies, their governance framework should protect shareholders' right. As a result, the board or the national bank should make sure that the shareholders have the right to participate in, and to be sufficiently informed on decisions concerning fundamental corporate changes which may come in the form of amendments to the statutes or articles

of the company or similar governing documents; the authorization of additional shares and extraordinary transactions that in effect result in the sale of the company [44]. The board should also guarantee transparency. The shareholders should have the opportunities to participate effectively and vote in the general shareholders meeting. They should be informed of the rules, voting procedures, the date, location, agenda and issues to be decided on a particular meeting that govern the meetings. Moreover, the members should be provided with the chance to ask questions to the board and to the board and to place items on the agenda at the general meetings, subject to reasonable limitations. The insurance company should make sure that they should be able to vote in person or in absentia and equal effect should be given to the votes whether in person or absentia [45]. As per the declaration of article 5 of proclamation number 86/94, there exist no discrimination of shares (class of shares) as between the holders; all the shares are ordinary shares of the same per value. But unlike the message of article 325 (1) of the commercial code, no shareholder of an insurance company is entitled to bearer shares or debentures [46]. Moreover, pursuant to article 5 of proclamation number 86/94, the governance of the insurance companies and the national bank should provide equal treatment to all shareholders. However, in a similar fashion with banks, foreigners are not allowed to exercise insurance activities. The declaration of article 352 of the commercial code on the right of minorities is vague in this proclamation. In case of violation, the board should ensure effective redress. In general equal treatment should be extended [47]. Governance should make sure the flow of external capitals to the insurance companies. The board is also concerned with finding ways to encourage the various stakeholders in the company to undertake socially efficient levels of investment, specific human and physical capital in the sector for the competitiveness and ultimate success of the company is dependent on teamwork that embodies contributions from a range of different resource providers including investors, employees, creditors and those insured by the company [48].

### **Disclosure and Transparency in Insurance Companies**

The governance is at duty to disclose all material information regarding the insurance company, which includes but not limited to financial situation, performances, ownership and governance of the company. Such disclosure also helps to improve the public understanding of the structure and activities of the enterprise, the corporate policies, and performances with respect to environmental and ethical standards and the insurance company's relationship with the community in which they operate [49]. The duty of disclosure imposed on insurance companies should also be discharged towards the satisfaction of the national bank. Per article 26 of the proclamation every officer of the insurer should produce before the bank all such books of account, register and other documents in his custody, or power and to furnish it with any statement and information related to the affairs of the insurer as the national bank may specify. In similar fashion, the insurer should file to the bank a report stating the course, which in his opinion shall be most advantageous to the general interest of the holder of insurance policies [50]. Moreover, in order to protect the uses of the information from damage due to omission or miss statement, the insurer company is at duty to provide material information on the financial and operating results of the company and its objectives. Major share

ownership and voting rights, members of the board and key executives and their remunerations, material foreseeable risk factor, material issues regarding employees and other stakeholders and governance structures and policies and so on [51]. Finally, according to the UN guideline on good practices in corporate governance of disclosure, the insurer or the board should assure the principle of 'equality of disclosure' to stakeholders. Information on board composition, rules and procedures governing the acquisitions of corporate control in the capital markets and extra ordinary transactions such as mergers and sales of substantial portion of corporate assets, information on the board's role and functions must be fully disclosed. The insurance company should fully disclose significant transactions with related parties, information on the objectives of the company and on the beneficiary ownership structure [52].

## Conclusion

Corporate governance is the point of life of banks and insurance companies. The presence of good corporate governance provides positive externalities to the interests of the concerned bank or insurance company in particular and all of its stakeholders in general. To the contrary however, if a bank or an insurance company does not practice the principles of corporate governance, it will certainly infringe not only the interest of the company but also the economy of the country in general. In this paper we have seen that the organ which is originally vested with the power to ensure corporate governance of banks or insurance companies is the board of directors. Having considered the pivotal role the board serves, the position and the risk associated with the office of the board of directors, the law has stipulated rigorous requirements on the election, operation and decision making of the board of directors. It is also the duty of the board to be held accountable for those that have elevated it to power. The shareholders, influential shareholders, managers, auditors, chief executive officers of the company also exercise or participate in governance of the company to the extent of their respective levels of empowerment. The presence of good practice of governance depends on the cumulative efforts of all the organs that participate in the management of a bank or an insurance company. In modern economies the financial sector accounts to about half of the economy of a state. The rest is deemed to be covered by the state sector. Due to this role played by the financial sector states often intervene and seriously regulate the financial sector through their national banks. In Ethiopia, the unlimited power of regulation exercised by the NBE on other banks and insurance companies can be analogized with the constitutional powers of the Prime Minister. Although both banks and insurance companies are managed by their own board of directors, the national bank has the final say to administer every aspect of their undertakings (financial or otherwise). In this regard, the national banks role is more of governance than regulation (its original role).

The pertinent proclamations empower the NBE in the one hand to exercise the roles of the board of directors and on the other, even to control and regulate the activities of the board itself. Among other things, the NBE is empowered to exercise powers like appointment, replacement, removal, and fixing remuneration of directors, deciding on conflict of interest with the company, convening general meeting, order transparency, require reports, revoke license and so on. Such exaggerated power of the NBE and its frequent interference in the

management of banks and insurance companies has made the substantial roles of the board of directors negligible. In this regard, the writer firmly recommends that it would be inappropriate to over regulate and also disturb the normal functioning of the company governance in a state where market economy is the principle without good cause. On the other hand, the sensitivity of the financial sector also reasonably forces the government to give to it a lion share of attention. It is a fact that in every economy political power of the governments is directly attached with its view on the financial sector. But, states should determine the extent, depth and frequency of interference in managerial affairs based on reasonable grounds. Simultaneously, to leave the affairs of corporate governance to the exclusive hands of the private sector also amounts to an economic suicide. The government should modernize or democratize corporate governance in the Ethiopian financial sector by: extending protection to minority shareholders; encouraging foreign direct investment and foreign investors; modernizing the legal and institutional framework of the management of companies; and implementing an efficient division of labor as between the concerned stakeholders in the management of the affairs of banks and insurance companies.

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- [25] Article 333 of the Commercial Code of the Empire of Ethiopia of 1960, NegaritGazeta, Extraordinary Issue No. 166 of 1960, Addis Ababa; Article 10 (3) of the Banking Business Proclamation No. 592/2008.
- [26] Article 11 (1) of the Banking Business Proclamation No. 592/2008.
- [27] Articles 352, 367, 389 (1) of the Commercial Code of the Empire of Ethiopia of 1960, NegaritGazeta, Extraordinary Issue No. 166 of 1960, Addis Ababa.
- [28] Articles 355-57 and 408-409 of the Commercial Code of the Empire of Ethiopia of 1960, NegaritGazeta, Extraordinary Issue No. 166 of 1960, Addis Ababa; Article 12 of the Banking Business Proclamation No. 592/2008.
- [29] Articles 391-92, 392,396, and 406 of the Commercial Code of the Empire of Ethiopia of 1960, NegaritGazeta, Extraordinary Issue No. 166 of 1960, Addis Ababa; Article 12 of the Banking Business Proclamation No. 592/2008.
- [30] Article 309 (c), 364, and 366-67 of the Commercial Code of the Empire of Ethiopia of 1960, NegaritGazeta, Extraordinary Issue No. 166 of 1960, Addis Ababa.
- [31] Ibid.
- [32] Articles 445-479 of the Commercial Code of the Empire of Ethiopia of 1960, NegaritGazeta, Extraordinary Issue No. 166 of 1960, Addis Ababa; Article 28 (1-5) of the Banking Business Proclamation No. 592/2008; Article 22 (1-3) of the Proclamation to Amend the National Bank of Ethiopia Establishment Proclamation No. 591/2008.
- [33] Article 461 of the Commercial Code of the Empire of Ethiopia of 1960, NegaritGazeta, Extraordinary Issue No. 166 of 1960, Addis Ababa; Article 28 of the Banking Business Proclamation No. 592/2008.
- [34] Article 28 (5) of the Banking Business Proclamation No. 592/2008.
- [35] Articles 313 (10), 347 of the Commercial Code of the Empire of Ethiopia of 1960, NegaritGazeta, Extraordinary Issue No. 166 of 1960, Addis Ababa; Articles 29-31 of the Banking Business Proclamation No. 592/2008.
- [36] The OECD Principles IV (a, b, c, d) of Corporate Governance; The UNO guidelines on Corporate Governance PP. 17-25; Article 359 of the Commercial Code of the Empire of Ethiopia of 1960, NegaritGazeta, Extraordinary Issue No. 166 of 1960, Addis Ababa.
- [37] Articles 2 (8, 12, 14, 16) of the Proclamation to provide for Insurance Business No. 746/2012, 18th Year No. 57 Addis Ababa, 22nd August, 2012.
- [38] Articles 2 (10), 15 (1-4) of the Proclamation to provide for Insurance Business No. 746/2012, 18th Year No. 57 Addis Ababa, 22nd August, 2012; Article 5 of the Proclamation for the Licensing and Supervision of Insurance Business No. 86/1994.
- [39] Articles 16 (1-4) of the Proclamation to provide for Insurance Business No. 746/2012, 18th Year No. 57 Addis Ababa, 22nd August, 2012; Article 43 of the Proclamation for the Licensing and Supervision of Insurance Business No. 86/1994.
- [40] Articles 17-18 of the Proclamation to provide for Insurance Business No. 746/2012, 18th Year No. 57 Addis Ababa, 22nd August, 2012; Article 5 of the Proclamation for the Licensing and Supervision of Insurance Business No. 86/1994.
- [41] Article 33 of the Proclamation for the Licensing and Supervision of Insurance Business No. 86/1994.
- [42] Cross refer to the points raised on article 44 (a) of the same proclamation.
- [43] Article 36 (1) of the Proclamation for the Licensing and Supervision of Insurance Business No. 86/1994.
- [44] Article 11 (1-5) of the Proclamation to provide for Insurance Business No. 746/2012, 18th Year No. 57 Addis Ababa, 22nd August, 2012.
- [45] Article 13-14 of the Proclamation to provide for Insurance Business No. 746/2012, 18th Year No. 57 Addis Ababa, 22nd August, 2012; Article 5 (2) of the Proclamation for the Licensing and Supervision of Insurance Business No. 86/1994.
- [46] Article 5 of the Proclamation for the Licensing and Supervision of Insurance Business No. 86/1994.
- [47] Article 36 (1) of the Proclamation for the Licensing and Supervision of Insurance Business No. 86/1994.
- [48] Articles 22- 26 of the Proclamation for the Licensing and Supervision of Insurance Business No. 86/1994.
- [49] Article 26 of the Proclamation to provide for Insurance Business No. 746/2012, 18th Year No. 57 Addis Ababa, 22<sup>nd</sup> August, 2012.
- [50] Article 33 (1-6) of the Proclamation to provide for Insurance Business No. 746/2012, 18th Year No. 57 Addis Ababa, 22nd August, 2012.
- [51] Articles 34-35 of the Proclamation to provide for Insurance Business No. 746/2012, 18th Year No. 57 Addis Ababa, 22<sup>nd</sup> August, 2012.
- [52] Article 23 of the Proclamation for the Licensing and Supervision of Insurance Business No. 86/1994.