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ADDIS ABABA UNIVERSITY
College of Law and Governance Studies

**Window of Liberalization in the Banking Sector: Analysis of the Possible
Options and Legal Outlets for Mergers and Acquisitions among Local Banks
in Ethiopia**

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**A Manuscript a short version of the thesis Submitted to School of Graduate
Studies of Addis Ababa University in Partial Fulfillment of the Requirements
for Degree of LLM in Business Law.**

Advisor- Zekarias Keneaa (Associate Professor)

**April, 2025
Addis Ababa**

Declaration

I, Getenet Dinberu Gelaw, hereby declare that this thesis titled "Window of Liberalization in the Banking Sector: Analysis of the Possible Options and Legal Outlets for Mergers and Acquisitions among Local Banks in Ethiopia" has been carried out by me under the guidance and supervision of my advisor, Associate Professor Zekarias Keneaa. All sources of materials used have been duly acknowledged.

Getenet Dinberu Gelaw

Signature.....

Date.....

I hereby confirm that this thesis has been submitted for examination with my supervision and endorsement as the Advisor.

Advisor - Zakarias Keneaa (Associate Professor)

Signature.....

Date.....

Window of Liberalization in the Banking Sector: Analysis of the Possible Options and Legal Outlets for Mergers and Acquisitions among Local Banks in Ethiopia

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Abstract

The dynamic and expanding financial sector of Ethiopia necessitates a robust legal and regulatory framework to effectively address challenges that arise during bank mergers, a process increasingly significant in fostering economic stability and growth. This thesis seeks to analyze and evaluate the comprehensiveness and effectiveness of the existing Ethiopian laws and regulations governing bank mergers, with a particular focus on their capacity to address key legal challenges and ensure adequate regulatory oversight throughout the merger process. By examining current laws and regulatory provisions, this research identifies gaps, ambiguities, and potential shortcomings that may impede the successful implementation of mergers and limit the legal protections afforded to stakeholders.

The study utilizes a doctrinal legal research methodology, supplemented by comparative analysis of international best practices in bank mergers, to provide insights and recommendations that aim to strengthen Ethiopia's legal framework. Key areas of examination include the approval process, treatment of stakeholder interests, competition law considerations, and compliance with financial stability requirements. Furthermore, the thesis explores the implications of these laws on market dynamics and the banking sector's role in promoting economic development.

The findings of this study underscore the importance of a comprehensive and coherent regulatory regime in addressing legal complexities associated with bank mergers while fostering confidence among stakeholders. It also aims to contribute to the ongoing development of Ethiopia's legal infrastructure, promoting transparency, efficiency, and alignment with global standards. By addressing these core issues, the research aspires to serve as a valuable resource for policymakers, legal practitioners, and banking professionals engaged in the evolving landscape of financial regulation in Ethiopia.

Keywords: Ethiopian Banking System, Mergers and acquisitions, NBE,

The author is the candidate of at Addis Ababa University, Collage of Law and Governance. The Manuscript is a short version of the thesis Submitted to the College of Law and Governance Studies at

INTRODUCTION

1.1. Back ground of the study

The banking sector is a crucial component of a nation's economy, particularly in developing countries with weak capital markets.¹ It plays a vital role in providing intermediation services, facilitating efficient resource allocation, and transmitting monetary policy across the entire economic system.² In modern economies, the banking sector is a gauge for assessing overall economic stability, and regulatory bodies enforce stringent regulations to safeguard its financial well-being. Ethiopia, one of the least developed countries on the African continent, aims to align with these principles.³

In Ethiopia, the banking sector is a cornerstone within the financial landscape, contributing 4.2% to the national economy in 2022.⁴ Proclamation no.592 of 2008 emphasizes the importance of Ethiopian banks in the country's economic development.⁵ These institutions mobilize funds domestically and internationally, directing resources to various sectors of the economy.⁶ The

¹ Vamsibu, 'Role of Commercial Banks in Economic Development' (2014). Available at <https://www.scribd.com/document/238016391/Role-of-Commercial-Banks-in-Economic-Development>., accessed 20 March 2025.

² Dr. Mahmoud Izzat Allahham, 'IMPACT OF CAPITAL STRUCTURE ON BANK FINANCIAL PERFORMANCE OF AL AHLI BANK IN SAUDI ARABIA' (2015), available at <https://www.researchgate.net/publication/283163148>, accessed 20 March 2025.

³ Sibindi, A. B. and Makina, D., 'Are the determinants of banks and insurers' capital structures Homogeneous? Evidence using South African data. *Cogent Economics & Finance*' (2018), 6: 1-21, available at <https://www.tandfonline.com/doi/full/10.1080/23322039.2018.1519899>, accessed on 21 April 2024.

⁴ NBE 2021-22-Annual-report, available at <https://nbe.gov.et/wp-content/uploads/2023/07/2021-22-Annual-report.pdf>, accessed on 23 January 2025.

⁵ Banking Business Proclamation, Proclamation No. 592/2008, Federal Negarit Gazeta, 25 August, Addis Ababa, 2008.

⁶ Paramjeet Singh, Divya Gaur, Anjel Juman P, Muhammed Yasar Arafath Paleri, Rana Jasmin P, Sana Nazeer, Abdul Hakeem K, Anisha Panda, Karuna Boodala and R Sendhil (2022). *Financial Institutions and Markets: Glossary*. Available at SSRN: <https://ssrn.com/abstract=4150316> or <http://dx.doi.org/10.2139/ssrn.4150316> , accessed on 24 February, 2025.

structural configuration and operational dynamics of the banking sector are integral to ensuring financial stability and fostering economic growth.⁷

The origins of modern banking can be traced back to Florence, Italy, and emerged during Emperor Menelik II's reign in 1905.⁸ The Ethiopian banking industry has undergone various transformations due to shifts in the country's political and economic landscape.⁹ The evolution of Ethiopia's modern banking sector can be segmented into three distinct eras: the Imperial Regime era (1905-1974), the Socialist State era (1974-1991), and the Liberalization era (1991-to-date).¹⁰

2. GLOBAL TRENDS IN BANKING: LIBERALIZATION, CONSOLIDATION, AND COMPLIANCE WITH INTERNATIONAL NORMS.

2.1. Banking Sector Liberalization

Banking sector liberalization refers to the deregulatory measures undertaken to integrate a nation's banking system into the global financial architecture.¹¹ This process involves the **reduction of state-imposed barriers** to entry and operations within the banking industry, thereby fostering a competitive and diversified financial environment. It encompasses the **relaxation of capital controls**, enabling both **inward and outward capital flows**, and the **entry of foreign banks** into domestic markets.¹² The liberalization strategy is often accompanied by a comprehensive **legal reform** to strengthen the regulatory framework, ensuring

⁷Ibid.

⁸ Bhatt, V. 'A Study of the Evolution of Indian Banking Industry and Its Challenges, International Journal of Multidisciplinary' (2020), 5(4): 19-25, available at https://www.researchgate.net/publication/344545797_A_Study_of_The_Evolution_of_Indian_Banking_Industry_and_Its_Challenges, accessed on April 21, 2024.

⁹ Misrak Tesfaye Abate , Ratinder Kaur, 'Banking Sector in Ethiopia: Origin and Present State (2023).| academia.edu EPH - International Journal of Business & Management ISSN (Online): 2208-2190 Volume 09 Issue 02 April 2023, available at https://www.academia.edu/101087375/Banking_Sector_in_Ethiopia_Origin_and_Present_State, accessed 28 March 2025.

¹⁰ Ibid.

¹¹ Mesfin D. Mekonnen, 'Liberalization of Ethiopia's Banking Sector and Its Legal Implication on the Regulation of Banks', (2017), available at https://repository.up.ac.za/bitstream/handle/2263/64624/Mekonnen_Liberal_2017.pdf?sequence=1, accessed 14 May 2024.

¹² Ibd.

that banks operate under robust **risk management** and **corporate disclosure** norms.¹³ The overarching aim is to enhance the efficiency and stability of the banking sector, aligning it with international standards of banking supervision, such as those set by the Basel Committee on Banking Supervision.¹⁴

The liberalization of the banking sector is a pivotal legal reform that facilitates the ingress of foreign capital and augments domestic financial resources, thereby catalyzing economic expansion.¹⁵ This deregulatory measure typically results in a diminution of the cost of capital, fostering an environment conducive to investment and economic growth.¹⁶ Furthermore, it enhances the robustness of the financial sector by introducing sophisticated financial instruments, fostering competitive practices, and propelling technological advancements.¹⁷ Additionally, it allows for the diversification of risk and the stabilization of consumption patterns through access to international financial markets.¹⁸ The incursion of foreign banks engenders a competitive milieu that can lead to enhanced efficiency and lower costs within the domestic banking system.¹⁹ Moreover, the internationalization of capital markets under a liberalized regime enables domestic firms to procure capital at more favorable terms, potentially

¹³ Facundo Abraham, Sergio L. Schmukler, Alwaleed Alataban, 'Financial Liberalization: Benefits, Risks and Country Experience' (2019), available

at

<https://documents1.worldbank.org/curated/en/099105006102227360/pdf/P1647370e55f1b0b0995e0753b806d05fd.pdf>, accessed on 14 February 2025.

¹⁴ Ibid

¹⁵ Ibid.

¹⁶ Peter Blair Henry, 'Capital-Account Liberalization, the Cost of Capital, and Economic Growth', Vol. 93, No. 2, Papers and Proceedings of the One Hundred Fifteenth Annual Meeting of the American Economic Association, (2003), Washington, DC., pp. 91-96 (6 pages), available at <https://www.jstor.org/stable/pdf/3132206.pdf>, accessed 26 May 2024.

¹⁷ Ibid.

¹⁸ Kevin J. Stiroh, 'Diversification in Banking', (2012), the Oxford handbook of Banking, available at <https://academic.oup.com/edited-volume/36325/chapter/318689160>, accessed 19 May 2024.

¹⁹ Jeon, Bang Nam & Olivero, María Pía & Wu, Ji, 'Do foreign banks increase competition? Evidence from emerging Asian and Latin American banking markets' (2011), available at <https://ideas.repec.org/r/eee/jbfina/v35y2011i4p856-875.html>, accessed 28 May 2024.

leading to improved governance and reporting standards.²⁰ Lastly, the liberalization of foreign direct investment (FDI) can engender productivity spillovers, benefiting the local economy.²¹ Nonetheless, it is imperative to navigate the legal landscape carefully to mitigate the heightened susceptibility to financial volatility and speculative activities that such liberalization might entail.²²

2.1.1. Deregulation of financial markets

Financial market deregulation aims to enhance economic vibrancy and competitiveness by reducing government oversight, fostering innovation, and improving market efficiency.²³ However, it also poses risks like potential monopolies and reduced consumer protection. Balancing economic growth with financial stability is crucial. Despite deregulation trends, financial stability remains a priority, leading to re-regulation efforts focused on risk management and adequate capital reserves.²⁴ Modern regulatory systems emphasize prudential regulation and international cooperation to harmonize practices.²⁵

2.1.2. The shift from state-controlled to market-driven policies in banking.

The shift from state-controlled to market-driven banking policies encourages innovation and customer-focused services. Advanced analytics help banks use data to identify trends, optimize products, and personalize marketing.²⁶ Banks segment customers for targeted campaigns and use

²⁰ Stephen C. Nelson, 'Banks beyond borders: internationalization, financialization, and the behavior of foreign-owned banks during the Global Financial Crisis', (2020) available at <https://link.springer.com/article/10.1007/s11186-020-09381-6>, accessed 12 April 2024.

²¹ Md Arif-Ur-Rahman and Kazuo Inaba, 'Foreign direct investment and productivity spillovers: a firm-level analysis of Bangladesh in comparison with Vietnam', (2021), available at <https://journalofeconomicstructures.springeropen.com/articles/10.1186/s40008-021-00248-2>, accessed on 12 April 2024.

²² Ibid.

²³ CFI Team, 'Deregulation- overview, benefits, consequences & examples', available at <https://corporatefinanceinstitute.com/resources/economics/deregulation/>, accessed 14 May 2024.

²⁴ Will Kenton, 'Deregulation: Definition, History, Effects, and Purpose (investopedia.com)' (March 11, 2024), available at <https://www.educba.com/deregulation/>, accessed 15 April 2024.

²⁵ Ibid.

²⁶ Denis Francis, Imke Jacob, and Fadi Zoghby, 'the data and analytics edge in corporate and commercial banking', (2023) available at <https://www.mckinsey.com/industries/financial-services/our-insights/the-data-and-analytics-edge-in-corporate-and-commercial-banking>. And McKinsey & Company, (November 2018), Advanced analytics in

dynamic pricing strategies based on various factors.²⁷ However, this transition requires robust risk management due to reduced regulatory safety nets.²⁸ Banks must balance profitability with financial stability and consumer protection in a complex global economy.²⁹

2.1.3. The rationale behind liberalization, its impact on economic growth, and the challenges and opportunities it presents.

Economic liberalization reduces state intervention to create a more efficient and competitive economy by allowing market forces to dictate the flow of goods, services, and capital.³⁰ This process includes removing trade barriers, deregulating industries, and privatizing state-owned enterprises.³¹ Generally, liberalization leads to higher GDP growth, increased foreign direct investment, and improved trade ratios due to market efficiencies and international market access.³²

However, the benefits are not uniform across all countries and sectors. Manufacturing-exporting countries benefit more than those relying on resource-based exports.³³ Liberalization can also increase inequality and cause social displacement, with short-term job losses and potential economic instability needing careful management.³⁴

banking—a sneak peek, available at <https://www.mckinsey.de/publikationen/leading-in-a-disruptive-world/advanced-analytics-in-banking>, accessed 15 April 2024.

²⁷ Pamela Reich, ‘How Segmentation Drives Effective Marketing Strategy for Banks’, (2022), available at <https://bankingjournal.aba.com/2022/01/how-segmentation-drives-effective-marketing-strategy-for-banks>, accessed 15 April 2024.

²⁸ Deloitte Consulting AG, ‘Pricing for the banking industry’, (2011) available at <https://www2.deloitte.com/content/dam//ch/Documents/financial-services/ch-en-financial-services-banking-pricing-for-the-banking-industry>, accessed 16 May 2024.

²⁹ Ibid.

³⁰ Sakshi Gupta, “Economic Liberalization in India, Concept, Objective, (2024), available at <https://www.studyiq.com/articles/economic-liberalization-in-india>. Accessed on May 26/2024.

³¹ Ibid.

³² Ibid.

³³ Ibid

³⁴ Ibid.

Liberalization offers opportunities like market diversification, access to specialized resources, market expansion, economic growth, job creation, and skills development.³⁵ It makes economies more resilient to shocks and fosters innovation.³⁶ In the banking sector, liberalization enables the development of innovative financial instruments, alternative financial intermediation, and the expansion of banking services into new markets under a more lenient legal regime.³⁷

2.2 Mergers and Acquisitions (M&As) of Banks

2.2.1 General overview of M&As of banks.

Mergers and acquisitions (M&As) in the banking sector are common globally, driven by the goal of achieving economies of scale.³⁸ These are typically horizontal mergers involving similar business activities, including non-banking financial institutions.³⁹ M&As enable rapid, inorganic growth, expanding operations and market presence. Both government and private banks encourage M&As for strategic advantages.

M&As are crucial for strategic growth, enhancing competitive edge, market share, and economies of scale.⁴⁰ Mergers involve two similar banks forming a new entity to improve

³⁵ Joseph Nguyen, '5 Economic Effects of Country Liberalization', (2023), available at <https://www.investopedia.com/articles/economics/11/economic-benefits-country-liberalization.asp>, accessed 20 April 2024.

³⁶ Ibid.

³⁷ Alexander Edlich and Reinhard Höll, 'The changing landscape for banks' (2024), available at <https://www.mckinsey.com/industries/financial-services/our-insights/the-changing-landscape-for-banks>, accessed 20 April 2024.

³⁸ DeYoung, R., Evanoff, D. D., & Molyneux, P., 'Mergers and acquisitions of financial institutions:' (2009), A review of the post-2000 literature. *Journal of Financial Services Research*, 36(2-3), 87-110, available at <https://doi.org/10.1007/s10693-009-0066-7>, accessed 20 April 2024.

³⁹ Carow, K. A., Kane, E. J., & Narayanan, R. P., 'How have borrowers fared in banking mega-mergers?' (2006), *Journal of Money, Credit and Banking*, 38(3), 821-836, available at <https://ideas.repec.org/a/mcb/jmoncb/v38y2006i3p821-836.html>, accessed on 20 May 2024.

⁴⁰ Clara Aldea Gil de Gomez, Rob, 'Strategic M&A in US banking: Creating value in uncertain times', (2022), available at <https://www.mckinsey.com/industries/financial-services/our-insights/strategic-m-and-a-in-us-banking-creating-value-in-uncertain-times>, accessed 20 April 2024.

efficiency and service.⁴¹ Acquisitions usually see a larger bank buying a smaller one to expand geographically or diversify services.⁴² Takeovers can be friendly, with management approval, or hostile, without it, leading to significant management and strategy changes.⁴³

Mergers combine companies to share resources and strengths, gaining a competitive edge.⁴⁴ Acquisitions involve one company taking over another, often leading to imposed changes and potential unease among the acquired company's employees.⁴⁵

Mergers: Two or more companies combine to form a new entity, sharing resources and technology to strengthen overall capabilities and gain a competitive edge.⁴⁶

Acquisitions: One company acquires another by purchasing over 50% of its shares.⁴⁷ This can be friendly or hostile, with the acquiring company imposing decisions on the acquired company, potentially causing unease among employees.⁴⁸

Takeovers: A specific type of acquisition where a company seeks control of another, either with management's consent (friendly) or without it (hostile), often using tactics like tender offers or proxy fights.⁴⁹

⁴¹ Shraddha Thakur & Prof. Arvind Kumar, 'MERGER & ACQUISITION IN BANKING SECTOR AND ITS IMPACT ON THEIR EFFICIENCY: A STUDY', (2022), International Journal of Innovations & Research Analysis (IJIRA) ISSN: 2583-0295, Impact Factor: 5.449, Volume 02, No. 02, April - June 2022, pp 04-18, available at <https://www.inspirajournals.com/uploads/Issues/971657712.pdf> accessed 20 April 2024.

⁴² Ibid.

⁴³ Peggy James, 'Hostile Takeovers vs. Friendly Takeovers: What's the Difference', (2022), available at <https://www.investopedia.com/ask/answers/042215/what-difference-between-hostile-takeover-and-friendly-takeover.asp>, accessed 12 May 2024.

⁴⁴ Ibid.

⁴⁵ Ibid.

⁴⁶ Aaron Crowe, 'Mergers vs Acquisitions', (2024), available at <https://www.wallstreetmojo.com/mergers-vs-acquisitions/>, accessed on June 20, 2024.

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Troy Segal, 'Mergers and Acquisitions: Understanding Takeovers', (investopedia.com) (July 01, 2023), available at <https://www.investopedia.com/investing/mergers-and-acquisitions-understanding-takeovers/>, accessed 20 April 2024

Consolidation: Multiple banks merge to form a new entity, aiming to enhance efficiency, reduce costs, expand the customer base, and offer a broader range of products.⁵⁰ This process can significantly impact macroeconomic factors like money supply, interest rates, and inflation.⁵¹

⁵⁰ 'Banks consolidation: Effects, Advantages & Macroeconomic role', available at <https://www.vaia.com/en-us/explanations/macroeconomics/economics-of-money/bank-consolidation/>, accessed on May 12 2024.

⁵¹ Ibid.

2.2.2 The motives behind M&As.

Mergers and Acquisitions (M&As) are key corporate strategies for growth, consolidation, and transformation, driven by various motives.⁵² Strategically, M&As aim to achieve market expansion and penetration by acquiring companies in different geographic markets to access new customer bases, industries, and suppliers.⁵³ Financially, they help attain economies of scale and scope, reduce redundant functions, streamline processes, and increase profitability through cost and revenue synergies.⁵⁴ Operationally, M&As allow companies to acquire unique assets like proprietary technology, accelerating innovation and enhancing production capabilities, supply chain efficiency, and distribution networks.⁵⁵ Legally, they navigate regulations to gain tax benefits, address antitrust concerns, and comply with regulatory mandates while achieving strategic objectives.⁵⁶ From a human capital perspective, M&As bring in new talent and expertise, focusing on aligning corporate cultures to realize the full potential of the merger.⁵⁷ Lastly, risk management motives involve diversifying product lines, services, and markets to mitigate risks, stabilize revenue streams, and buffer against market volatility.⁵⁸

2.2.3 Mergers and Acquisitions (M&As) effects on competition and efficiency.

Mergers and Acquisitions (M&As) have nuanced impacts on competition and efficiency within markets.⁵⁹ Horizontal mergers can increase market concentration, potentially reducing competition and raising prices, but they may also cut redundant costs and benefit consumers.⁶⁰

⁵² CFI Team , ‘Motives for Mergers -Examples, Reasons, Defined’(2009), (corporate finance institute.com) ,<https://corporatefinanceinstitute.com/about-cfi/>, Richard Schoenberg (02 September 2009) Mergers and Acquisitions: Motives, Value Creation, and Implementation <https://doi.org/10.1093/oxfordhb/9780199275212.003.0020> , assessed 14 April 2024.

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ Maureen K. Ohlhausen & Taylor M. Owings, ‘Evidence of Efficiencies in Consummated Mergers’(2023), available at <https://www.uschamber.com/assets/documents/20230601-Merger-Efficiencies-White-Paper.pdf>, accessed 28 May 2024

⁶⁰ Benjamin Gomes-Casseres, ‘How Mergers Change the Way Your Company Competes’, (hbr.org) (2018) available at <https://hbr.org/2018/06/how-mergers-change-the-way-your-company-competes>, assessed on April 14/2024.

Vertical mergers streamline operations and reduce costs but might give the merged entity power to foreclose competitors.⁶¹ The impact on efficiency is complex; while some studies show M&As increase average markups without significant productivity gains, others indicate inconsistent efficiency improvements.⁶² Notably, in the banking sector, technological advancements from M&As can lead to productivity gains.⁶³ However, while mergers may boost profits, they often fail to deliver broader efficiency gains that enhance overall prosperity.

2.2.4 The legal and regulatory considerations involved in Mergers and Acquisitions (M&As) in general.

Mergers and Acquisitions (M&As) involve complex legal and regulatory considerations. Regulatory approvals from antitrust bodies and sector-specific regulators are essential to ensure compliance with competition laws and industry regulations. Employment law considerations are crucial due to potential changes in employment arrangements and workforce reductions. Due diligence is critical, especially in cross-border transactions, requiring thorough examination of the target entity's legal, financial, and operational aspects.⁶⁴ M&As must adhere to corporate governance principles, ensuring decisions are in the best interest of shareholders.⁶⁵ Each country has its own legal frameworks governing M&As, and international transactions must comply with all relevant local laws.⁶⁶ Cross-border M&As add complexity due to differing legal systems and

⁶¹ Impact of Mergers and Acquisitions on Market Competition: Pros and Cons - Mergers and Acquisitions', (hakia.com) , available at <https://www.hakia.com/impact-of-mergers-and-acquisitions-on-market-competition-pros-and-cons/>, assessed 14 April 2024.

⁶² Bruce A., Blonigen Justin ,R. Pierce, 'Evidence for the Effects of Mergers on Market Power and Efficiency,' (2016), available at https://www.nber.org/system/files/working_papers/w22750/w22750.pdf, assessed on April 14/2024.

⁶³ Ibid

⁶⁴ Due diligence in M&A transactions: A detailed process and checklist', (2024), M&A Community, available at <https://mnacomunity.com/insights/due-diligence-in-mergers-and-acquisitions/>, accessed 23 August 2024.

⁶⁵ Adam O. Emmerich and Robin Panovka, Wachtell, Lipton, Rosen & Katz, 'Cross-Border M&A: Checklist for Successful Acquisitions in the U.S', (2022), available at <https://corpgov.law.harvard.edu/2022/01/22/cross-border-ma-2022-checklist-for-successful-acquisitions-in-the-u-s/>, accessed 12 August 2024.

⁶⁶ Aaron Hall, 'Tax Law Compliance in Mergers and Acquisitions', available <https://aaronhall.com/insights/business-law/mergers-and-acquisitions-business-law/managing-legal-compliance-in-mergers-and-acquisitions/>, accessed 14 August 2024.

regulatory environments, requiring navigation of foreign investment regulations and international tax laws.⁶⁷ Regulatory approvals from competition authorities are often necessary, and obtaining these can be complex.⁶⁸ Best practices for successful M&As include engaging local experts, ensuring cultural integration, managing effective communication, and planning for post-merger integration.⁶⁹ Intellectual property rights must be properly transferred and protected. Employment law challenges include ensuring fair treatment of employees and compliance with labor regulations.⁷⁰

Risk risks such as breaches of warranty and potential litigation.⁷¹ Cultural integration must ensure that merged entities' policies and practices comply with local laws and customs for smooth operations. Additionally, data privacy and protection are paramount, requiring compliance with laws like GDPR to handle customer and employee data ethically.⁷² Tax implications are significant, with considerations for taxable or tax-free transactions, immediate tax liabilities, and benefits like higher depreciation deductions.⁷³

2.2.5 Advantages and disadvantages of (M&As) to banks.

Mergers and Acquisitions (M&As) in the banking sector offer numerous advantages and disadvantages. On the positive side, M&As can lead to significant **economies of scale** by consolidating assets and operations, resulting in cost savings and increased lending capacity.⁷⁴

⁶⁷ Adam Emmerich, Robin Panovka, Wachtell Lipton, 'Cross-Border M&A – 2023 Checklist for Successful Acquisitions in the U.S.', (2023), available at <https://corpgov.law.harvard.edu/2023/01/07/cross-border-ma-2023-checklist-for-successful-acquisitions-in-the-u-s/>, accessed 14 August 2024.

⁶⁸ Ibid.

⁶⁹ Best Practices for International M&A: A Guide', (2024), available at <https://www.sharevault.com/blog/m-and-a/best-practices-for-international-ma>, accessed 23 May 2024.

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Ibid.

⁷³ Bloomberg Tax, "Tax Implications of Mergers and Acquisitions," (2024), available at <https://pro.bloombergtax.com/insights/federal-tax/tax-considerations-in-ma-and-restructuring/>, accessed 23 August 2024.

⁷⁴ McKinsey & Company, 'Seeds of outperformance: How M&A can help banks thrive in the next normal', (2021) available at <https://www.mckinsey.com/industries/financial-services/our-insights/seeds-of-outperformance-how-m-and-a-can-help-banks-thrive-in-the-next-normal>, accessed 18 May 2024.

They create **operational synergies** through the harmonization of systems and processes, improving efficiency and regulatory compliance.⁷⁵ M&As also allow banks to acquire **strategic assets** like new technologies or product lines, enhancing their competitive edge.⁷⁶ Additionally, mergers bring in new **human capital**, broadening the expertise and experience within the merged entity, which can drive innovation and growth.⁷⁷ Increasing **market share** through M&As strengthens a bank's position, providing greater negotiating power with customers, suppliers, and regulators.⁷⁸ Furthermore, M&As enable banks to acquire new competencies, technologies, and resources, contributing to their strategic objectives and financial stability.⁷⁹ However, M&As also present challenges. Cultural dissonance is a major issue, as integrating different corporate cultures can lead to conflicts, reduced employee morale, and a clash of values, potentially undermining the merger's success.⁸⁰ The integration process itself is complex, involving the unification of different banking systems, regulatory frameworks, and operational processes, which can cause transitional inefficiencies and disruptions.⁸¹ Talent attrition is another risk, as key personnel may leave due to redundancies, changes in corporate structure, or cultural misalignment, impacting operational continuity and institutional knowledge.⁸² These factors can either strengthen the bank's operational and strategic capabilities or lead to potential disruptions and conflicts, affecting the overall success of the merger.

2.3 International Laws and Practices governing banking operations.

The international legal framework that governs banking operations is an intricate tapestry of regulations and standards that aim to maintain the integrity and stability of the global financial

⁷⁵ Ibid.

⁷⁶ Ibid.

⁷⁷ Ibid.

⁷⁸ 'Global banking M&A outlook', H2 KPMG International KPMG, (2020) available at <https://kpmg.com/xx/en/home/insights/2020/07/eight-main-impacts-on-global-banking-m-and-a.html>, 26 April 2024.

⁷⁹ Ibid.

⁸⁰ Shraddha Thakur* Prof. Arvind Kumar, 'Merger & Acquisition in Banking Sector and Its Impact on their Efficiency', International Journal of Innovations & Research Analysis (IJIRA) (2012), available at <https://www.inspirajournals.com/uploads/Issues/971657712.pdf>, accessed 23 May 2024.

⁸¹ Ibid.

⁸² Ibid.

system.⁸³ This framework is not a single, unified code but rather a collection of agreements, treaties, and national laws that work in concert to regulate cross-border banking activities.⁸⁴ Key components include **Basel III**, developed by the Basel Committee on Banking Supervision, which strengthens the regulation, supervision, and risk management of banks.⁸⁵ In essence, the international legal framework for banking operations is a dynamic and evolving system that seeks to balance the facilitation of global banking activities with the need to protect the financial system and its participants from various risks.⁸⁶ It requires constant adaptation to new financial products, technologies, and market conditions to remain effective.⁸⁷

2.3.1 International Treaties and Agreements

The international legal framework governing banking operations is a complex system of agreements, treaties, and national laws designed to maintain global financial stability.⁸⁸ Key components include Basel III, which enhances regulation, supervision, and risk management of banks.⁸⁹ International treaties and agreements, such as the Basel Accords and the General Agreement on Trade in Services (GATS), establish protocols for regulatory cooperation and financial services liberalization.⁹⁰ Bilateral Investment Treaties (BITs) also impact the banking

⁸³ International Monetary Fund and World Bank, “An Overview of the Legal, Institutional, and Regulatory Framework for Bank Insolvency,” 2009, available at <https://www.imf.org/external/np/pp/eng/2009/041709.pdf>, accessed 11 May 2024.

⁸⁴ *Ibid.*

⁸⁵ Basel Committee on Banking Supervision, “Basel III: International Regulatory Framework for Banks,” 2010, available at <https://www.bis.org/bcbs/basel3.htm>, accessed 12 May 2024.

⁸⁶ International Banking Operations (Regulation K) eCFR :: 12 CFR Part 21, available at <https://www.ecfr.gov/current/title-12/chapter-II/subchapter-A/part-211>, accessed 12 May 2024.

⁸⁷ William R. White, ‘International Agreements in the Area of Banking and Finance: Accomplishments and Outstanding Issues’, (1999) available at <https://www.bis.org/publ/work38.pdf>, accessed 12 May 2024.

⁸⁸ International Monetary Fund and World Bank, “An Overview of the Legal, Institutional, and Regulatory Framework for Bank Insolvency,” 2009, available at <https://www.imf.org/external/np/pp/eng/2009/041709.pdf>, accessed 11 May 2024.

⁸⁹ Basel Committee on Banking Supervision, “Basel III: International Regulatory Framework for Banks,” 2010, available at <https://www.bis.org/bcbs/basel3.htm>, accessed 12 May 2024.

⁹⁰ World Trade Organization (WTO), ‘Annual Report’, (2023), available at <https://www.wto-ilibrary.org/content/books/9789287074287/>, accessed 12 May 2024.

sector.⁹¹ Global regulatory standards, set by bodies like the Basel Committee on Banking Supervision, harmonize banking supervision across borders.⁹² National legislation must align with these international standards while addressing local economic conditions.⁹³ Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) regulations require banks to conduct due diligence and report suspicious activities to prevent financial crimes.⁹⁴ Prudential regulation ensures the safety and soundness of banks through frameworks like the CAMELS rating system.⁹⁵ Consumer protection laws ensure fair treatment and transparency for consumers in the financial marketplace.⁹⁶ This dynamic framework continuously adapts to new financial products, technologies, and market conditions to remain effective.

Furthermore, data protection laws like GDPR ensure the safeguarding of personal and financial information in the banking sector.⁹⁷ Cross-border insolvency laws, developed by UNCITRAL, harmonize the treatment of insolvent banks operating in multiple jurisdictions, ensuring efficient asset management and equitable treatment of creditors.⁹⁸ Dispute resolution mechanisms, including arbitration and mediation, provide neutral and fair frameworks for resolving

⁹¹Trade and Development Report' (2023), available at https://unctad.org/system/files/official-document/tdr2023overview_en.pdf, accessed 12 April 2024.

⁹² Basel Committee on Banking Supervision, cited above at note 94.

⁹³ William R. White, 'International Agreements in the Area of Banking and Finance: Accomplishments and Outstanding Issues', (1999) available at <https://www.bis.org/publ/work38.pdf>, accessed 12 May 2024.

⁹⁴ Géraldine D'Argembeau, 'Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF), PwC has a proven experience in the enhancement of KYC processes and in building up an efficient and robust AML/CTF framework, available at <https://www.pwc.be/en/industry-sector/financial-services/anti-money-laundering-and-counter-terrorist-financing.html>, accessed 10 May 2024.

⁹⁵Prudential Regulation of Banking', IMF available at <https://www.imf.org/external/pubs/ft/wefs/toward/pdf/file06.pdf>, accessed 22 April 2024

⁹⁶'Financial Inclusion and Consumer Protection', available at <https://responsiblefinance.worldbank.org/en/responsible-finance/financial-consumer-protection>, accessed 10 May 2024.

⁹⁷'Banks and Financial Institutions: A Data Privacy Guide', (2022), available at <https://iapp.org/resources/article/banks-and-financial-institutions-a-data-privacy-guide/>, accessed 18 May 2024.

⁹⁸ Manasa Tantravahi, 'Cross-border insolvency – The ever-evolving framework', (2022), available at <https://www.lakshmisri.com/insights/articles/cross-border-insolvency-the-ever-evolving-framework/>, accessed 24 May 2024.

international banking disputes.⁹⁹ The legal framework continues to evolve to address emerging challenges such as crypto currencies, ESG factors, and cyber security threats.¹⁰⁰ Key international bodies, including the Basel Committee on Banking Supervision (BCBS)¹⁰¹, International Monetary Fund (IMF),¹⁰² World Bank,¹⁰³ Financial Stability Board (FSB)¹⁰⁴, and Bank for International Settlements (BIS)¹⁰⁵, establish standards, provide policy advice, and promote global financial stability. Additionally, the Financial Action Task Force (FATF) provides a comprehensive regulatory framework to combat money laundering, terrorist financing, and the financing of weapons of mass destruction.¹⁰⁶ AML and CTF regulations require banks to implement systems for monitoring and reporting suspicious activities.¹⁰⁷ Basel III sets robust capital and liquidity requirements to ensure banks can withstand financial stresses.¹⁰⁸ Moreover, banks must also comply with national laws, which often align with international standards to facilitate cross-border operations.

⁹⁹ Review of Statutory Dispute Resolution Processes in the Banking and Finance Sector’, (2021) available at <https://www.whitecase.com/sites/default/files/2021-03/review-statutory-dispute-resolution-processes-banking-finance-sector.PDF>, accessed 22 May 2024.

¹⁰⁰ Xavier Vives , Stijn Claessens , Antonio Fatás & Elena Carletti, ‘Challenges of the banking sector after the covid-19 crisis.(18 Jun 2020) available at <https://www.santander.com/en/press-room/insights/challenges-of-the-banking-sector-after-the-covid-19-crisis>, accessed 10 May 2024.

¹⁰¹ The Basel Committee – overview’, Charter (2018) available at <https://www.bis.org/bcbs/>, accessed 23 May 2024.

¹⁰² The World Bank Group and the International Monetary Fund (IMF)’, (2019) available at <https://www.worldbank.org/en/about/history/the-world-bank-group-and-the-imf>, accessed 20 May 2024.

¹⁰³ Ibid.

¹⁰⁴ ‘The Financial Stability Board (FSB)’, (2020) available at <https://www.fsb.org/about/organisation-and-governance/>, accessed 23 May 2024.

¹⁰⁵ ‘Governance and organization: Bank for International Settlements (BIS)’, available at <https://www.bis.org/about/orggov.htm>, accessed 23 May 2024.

¹⁰⁶ The FATF Recommendations, Updated November 2023, available at <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html>, accessed 23 August 2024.

¹⁰⁷ Bank Secrecy Act / Anti-Money Laundering (BSA/AML)’, available at <https://www.fdic.gov/resources/bankers/bank-secrecy-act/>, accessed 23 May 2024.

¹⁰⁸ International Banking Operations, cited above at note 94.

3. THE LEGAL LANDSCAPE AND REGULATORY FRAMEWORK GOVERNING M&As OF BANKS IN ETHIOPIA.

3.1. General Overview

The Ethiopian banking sector consists of over 30 banks, including one large state-owned bank, five medium-sized banks, and 24 small banks, with a collective capital of 212.4 billion birr as of June 20, 2023.¹⁰⁹ The Commercial Bank of Ethiopia (CBE) is the largest, ranking 30th in Africa with assets of approximately \$23 billion and a Tier 1 capital of \$929 million, and a profit of \$304 million in 2023. Awash International Bank ranks 82nd in Africa with a Tier 1 capital of \$299 million and a profit of \$84 million, while Dashen Bank ranks 15th in East Africa with a Tier 1 capital of \$282 million.¹¹⁰

Globally, Ethiopian banks are less prominent due to their smaller size and the relatively closed nature of Ethiopia's banking sector.¹¹¹ Factors contributing to this include limited assets and capital, a regulatory environment closed to foreign competition, economic challenges like currency devaluation and inflation, and slower technological adoption.¹¹²

Despite these challenges, opportunities exist for Ethiopian banks to enhance their competitiveness through regulatory reforms to allow more foreign participation, technological investments to improve service delivery and efficiency, and mergers and acquisitions to create stronger, more resilient institutions capable of competing on a global scale.¹¹³

3.2. Legal Framework governing M&As of Banks in Ethiopia

In Ethiopia, the legal framework for mergers and acquisitions (M&As) is primarily governed by the Commercial Code of Ethiopia Proclamation No 1243/2021. The Commercial Code of 2021 constitutes the latest legislative framework governing mergers and other corporate activities. Given that Ethiopian banks are mandated to operate as share companies, the provisions and

¹⁰⁹ 'Financial Stability Report', NBE. Gov.Et, (2024), available at https://nbe.gov.et/wp-content/uploads/2024/04/Finacial_Stability_Report_NBE_WF.pdf, accessed 20 May 2024.

¹¹⁰ Tom Minney, 'Africa's Top Banks in 2023', African Business, (2023), available at <https://african.business/2023/10/finance-services/africas-top-100-banks-in-2023>, accessed 10 May 2024.

¹¹¹ The Banker Database - interactive banking reports & global finance rankings, Top 1000 World Banks 2024, available at <https://www.thebankerdatabase.com/index.cfm/search/ranking?CFID=8100c101-5bfb-4029-a9bd-fc029460eb3f&CFTOKEN=0>, accessed 17 August 2024.

¹¹² Ibid.

¹¹³ Ibid.

regulatory requirements applicable to share companies shall also be directly enforceable upon banking institutions. According to this code, a merger involves two or more organizations merging into one, either by one organization acquiring the rest or by forming a new organization and merging into it.¹¹⁴ Additionally, a merger by acquisition occurs when one or more business organizations are wound up without liquidation, transferring all their assets and liabilities to a pre-existing organization.¹¹⁵ Shareholders or partners of the dissolved organization receive shares in the acquiring entity, and they may receive additional cash payments.¹¹⁶ The new Commercial Code repealed Book I (Traders and Business), II (Business Organizations) and V (Bankruptcy and Schemes of Arrangement) of the previous Code.¹¹⁷ One of the major changes in the new Code is the addition of a broader chapter governing mergers and divisions of business organizations. Previously, the Code provided only handful of provisions on amalgamation (Article 549-554).¹¹⁸ In the new Code, merger of business organizations and its mechanics are addressed in detail under Title 10, Chapter 2 of Book III.¹¹⁹

The Commercial Code defines merger of businesses as "... an operation whereby two or more organizations merge into one..." The law recognizes two modalities of merger: (1) merger by forming a new organization; and (2) merger by acquisition (Article 565).¹²⁰ The law seems to envision direct mergers, whereby subsidiary entities are not necessarily required for the purposes of undertaking mergers.

A merger by forming a new organization requires the existing business organizations to wound up without liquidation and transfer all their assets and liabilities to an organization they form (Article 565 (2)).¹²¹ The shareholders of the business organizations that are wound up, in

¹¹⁴ Proclamation no 1243/2021, the Commercial Code of the Federal Democratic Republic of Ethiopia (Article 565(1)-(2))

¹¹⁵ Ibid (Article 565(2))

¹¹⁶ Dagnachew & Mahlet Law Firm Limited Liability Partnership(LLP) | Merger and Acquisition Requirements under Ethiopian Law (dmethiolawyers.com). Available at <https://dmethiolawyers.com/merger-and-acquisition-requirements-under-ethiopian-law/>, accessed 10 August 2024.

¹¹⁷ Proclamation no 1243/2021, the Commercial Code of Ethiopia, cited above at note 121.

¹¹⁸ Ibid, article 549-554.

¹¹⁹ Ibid Title 10, Chapter 2 of Book III.

¹²⁰ Ibid article 565

¹²¹ Ibid, article 565(2))

exchange, will receive shares in the new entity. The shares they receive from the newly established business organization will be proportional to what they are currently holding in the former companies (Article 575 (1)).¹²² Additional payments may be made in cash.

The second type of merger by acquisition requires one or more business organizations to wound up without liquidation and transfer all their assets and liabilities to a preexisting organization (Article 565 (3)).¹²³ The shareholders of the companies that are wound up will receive shares in the acquiring company.¹²⁴ In such a merger type, one of the entities will have to be wound up without liquidation and transfer its assets and liabilities to the other company.¹²⁵ The shareholders of the company that is going to wound up will receive shares in the surviving entity. Additional payments may be made in cash.¹²⁶

The Banking Business Proclamation No. 592/2008 constitutes a critical piece of substantive legislation that introduces regulatory provisions governing mergers and amalgamations within the banking sector. These provisions predate the establishment of merger regulations under Ethiopia's general competition law framework. However, the proclamation confines itself to limited directives, primarily obligating banks to obtain prior written authorization from the regulatory authority, specifically the National Bank of Ethiopia, as a prerequisite for effectuating any merger or amalgamation.¹²⁷

The evolution of Ethiopia's banking sector has been significantly shaped by key legislative changes aimed at enhancing regulatory frameworks, consumer protection, and foreign investment opportunities. Proclamation No. 592/2008 established the foundational regulatory framework for the sector, primarily focused on maintaining existing practices without significant liberalization.¹²⁸ Ethiopia's banks merger legislations have evolved to address the growing need for a robust and competitive financial sector. The legal framework governing mergers is primarily shaped by proclamations and directives issued by the National Bank of Ethiopia (NBE)

¹²² Ibid. article 575(1)

¹²³ Ibid Article 565(3)

¹²⁴ Ibid.

¹²⁵ Ibid

¹²⁶ Ibid

¹²⁷ Banking Business Proclamation no. 592/2008, cited above at note 5, art. 3 (3) (c) & (d), Art. 33 & Art. 40.

¹²⁸ Ibid, art 5.

and other relevant authorities. These laws aim to streamline the merger process, ensure compliance with financial regulations, and promote stability within the banking sector.

Proclamation No. 592/2008 establishes a legal foundation for mergers and acquisitions within Ethiopia's banking sector, addressing critical aspects such as approval requirements, regulatory oversight, and consumer protection. Firstly, Article 3(3) mandates that banks must obtain prior written approval from the National Bank of Ethiopia (NBE) before proceeding with any merger or acquisition, underscoring the importance of regulatory consent to ensure adherence to legal procedures.¹²⁹ Secondly, Article 10(2) assigns the NBE the authority to oversee merger activities, with a focus on safeguarding financial stability and protecting the interests of depositors, this provision explicitly states that mergers or acquisitions must not "adversely affect the interests of depositors or the stability of the financial system," highlighting the regulator's role in preventing systemic risks.¹³⁰ Lastly, Article 10(3) emphasizes consumer protection by requiring merging banks to "take all necessary measures to protect the interests of their customers, this provision ensures that customer rights are preserved throughout the merger process, reinforcing the proclamation's commitment to fairness and equity."¹³¹ Together, these articles reflect a multifaceted approach to regulating bank mergers, balancing procedural clarity, financial oversight, and consumer protection as integral elements of Ethiopia's banking law framework.

The Banking Business Proclamation No. 592/2008 and its amendment lack a dedicated or comprehensive section addressing mergers and acquisitions in the banking sector.¹³² The provisions related to mergers are limited and embedded under the section titled "Licensing of Banking Business," which appears to be an incidental inclusion rather than a deliberate focus.¹³³ This fragmented approach signifies that the legislator's emphasis was primarily on licensing rather than addressing the complexities of bank mergers.¹³⁴ The proclamation simply requires prior notification and written approval from the National Bank of Ethiopia (NBE) as a

¹²⁹ Ibid, article 3(3)

¹³⁰ Ibid, article 10(2).

¹³¹ Ibid, article 10(3).

¹³² Ibid, article 3(3) (c)

¹³³ Ibid, article 3(3)

¹³⁴ Ibid

prerequisite for engaging in any merger or amalgamation, which is insufficient to regulate sophisticated transactions.¹³⁵ In contrast, Proclamation No. 1360/2025 adopts a more structured approach by dedicating a separate section, comprising three specific articles, to address mergers and acquisitions.¹³⁶ This deliberate inclusion underscores the legislator's recognition of mergers and acquisitions as strategic mechanisms to modernize the banking sector, enhance financial resilience, and prepare local banks to compete effectively with foreign entrants.¹³⁷ This progression from the incidental treatment in Proclamation No. 592/2008 to the systematic framework in Proclamation No. 1360/2025 highlights Ethiopia's evolving regulatory landscape and its commitment to modernizing the banking industry while maintaining regulatory oversight. The Banking Amendment Proclamation No. 1159/2019 initiated a step toward openness by permitting limited foreign investment through Ethiopian nationals of foreign origin.¹³⁸ Building on this foundation, Proclamation No. 1360/2025 represented a transformative milestone by fully opening the banking sector to foreign banks, enabling them to establish branches and subsidiaries in Ethiopia in alignment with international standards.¹³⁹ These legislative milestones collectively illustrate Ethiopia's trajectory toward a more liberalized and globally integrated banking sector. Proclamation No. 1159/2019 introduced critical amendments to the legal framework governing mergers and acquisitions in Ethiopia's banking sector, enhancing flexibility and regulatory rigor. Article 12(1) streamlined the process by allowing banks to merge or consolidate, provided they secure approval from the National Bank of Ethiopia (NBE) and demonstrate that the merger or consolidation is in the best interest of the financial system, this marked a shift toward more adaptable regulatory practices aimed at fostering stability and efficiency.¹⁴⁰ Furthermore, Article 12(2) made a significant innovation by permitting foreign nationals of Ethiopian origin to invest in the banking sector, including through mergers and acquisitions, contingent upon NBE's approval.¹⁴¹ This provision aimed to attract foreign investment and expand the sector's capital base while maintaining regulatory oversight. Additionally, Article 12(3) bolstered the regulatory

¹³⁵ Ibid

¹³⁶ Banking Business Proclamation No. 1360/2025, article 33, 34 & 35.

¹³⁷ Ibid

¹³⁸ Ibid, article 22.

¹³⁹ Ibid, article 17.

¹⁴⁰ Ibid, article 12(1)

¹⁴¹ Ibid, article 12 (2).

framework by mandating the NBE to issue directives that ensure transparency and integrity in the merger and acquisition process, addressing concerns over fairness and financial system stability.¹⁴² Collectively, these provisions reflect a progressive approach to managing mergers and acquisitions, balancing flexibility with robust oversight to promote growth and safeguard the financial sector.

Proclamation No. 1360/2025 introduced pivotal reforms that significantly impacted Ethiopia's banking sector by facilitating mergers and acquisitions while ensuring innovation, consumer protection, and financial stability.¹⁴³

A landmark change, Article 33(3) allowed foreign banks to merge with or acquire Ethiopian banks, provided they obtained prior approval from the National Bank of Ethiopia (NBE), marking the opening of Ethiopia's banking sector to foreign participants.¹⁴⁴

Proclamation No. 592/2008 provided a general framework for banking operations but did not explicitly categorize and address the distinction between voluntary and Statutory mergers schemes initiated by the National Bank of Ethiopia (NBE), leaving room for broad interpretation.

¹⁴⁵In contrast, Proclamation No. 1360/2025, which introduced a structured and modernized approach by clearly distinguishing between voluntary and statutory merger schemes. Voluntary mergers involve mutual agreements between banks, driven by strategic goals like enhancing efficiency, market share, or financial performance, with oversight and approval by the National Bank of Ethiopia (NBE). Statutory mergers, however, are mandated by the NBE under specific conditions, such as addressing financial instability or protecting the banking sector's stability, ensuring the public interest is safeguarded. By incorporating these distinctions, Proclamation No. 1360/2025 brought clarity and accountability to the merger process, marking a significant evolution in Ethiopia's banking legislation.¹⁴⁶

Under Ethiopia's previous bank merger regime, the lack of a legislative or regulatory framework defining the interaction between the National Bank of Ethiopia (NBE), as the prudential regulator, and other bodies such as the Trade Competition and Consumer Protection Authority

¹⁴² Ibid, article 12 (3).

¹⁴³ Ibid , article 33 (4)

¹⁴⁴ Ibid, article 33 (3).

¹⁴⁵ [Banking Business Proclamation no. 592/2008, cited above at note5](#)

¹⁴⁶ Banking Business Proclamation no. 1360/2025 cited at note 136, article 2 (69) & 2 (65), article 33 (1) & (2).

posed significant challenges. This absence created a jurisdictional gap, leading to potential regulatory conflicts and uncertainties in enforcing prudential and competition laws during bank merger reviews. The overlap in mandates between these agencies risked undermining the effectiveness of bank merger oversight and eroding stakeholder confidence. However, Proclamation No. 1360/2025 represents a decisive legal step toward resolving these issues. By establishing a structured framework that explicitly delineates the roles and responsibilities of the NBE, the Proclamation addresses the jurisdictional ambiguities that previously existed. The legal clarity provided ensures that the NBE retains primary authority over prudential regulations while establishing mechanisms for harmonized interaction with other regulatory bodies.¹⁴⁷ This alignment mitigates conflicts, enhances regulatory predictability, and strengthens the legal foundation for bank mergers by balancing prudential objectives with competition and consumer protection priorities.¹⁴⁸ In doing so, Proclamation No. 1360/2025 effectively upholds the principles of legal certainty, cooperation, and accountability in regulatory governance, fostering stability and trust in Ethiopia's banking sector. This progression underscores the importance of comprehensive legislative reforms in addressing jurisdictional gaps and promoting efficient regulatory practices.

Under Proclamation No. 1360/2025, the final decision regarding mergers lies with the shareholders of a bank when it is decided by extraordinary general shareholders meeting.¹⁴⁹ This means that any proposed merger must gain the approval of the majority of the shareholders. In this context, a hostile takeover, where an entity tries to acquire control without the consent of the target bank's management becomes less applicable because the ultimate authority rests with the collective decision of the shareholders. For a hostile takeover to succeed, the acquiring party would need to purchase a significant number of shares to influence or control the shareholders' vote. Even then, regulatory safeguards, such as approval from the National Bank of Ethiopia (NBE) and compliance with fit-and-proper requirements, serve as barriers to prevent destabilizing actions. Therefore, while technically possible, the framework established by Proclamation No. 1360/2025 makes hostile takeovers highly improbable and ensures that the

¹⁴⁷ Ibid ,article 33(7) “pertinent government organs shall cooperate with the national bank and concerned banks for the successful execution of any merger and acquisition”

¹⁴⁸ Ibid

¹⁴⁹ Ibid ,article 33(6)

decision-making process prioritizes stability, compliance, and the collective interests of the stakeholders.

Ethiopia's position on foreign investment in the banking sector began with Proclamation No. 592/2008, which explicitly barred foreign ownership in Ethiopian banks. Article 9 of this Proclamation mandated that all banks operating within Ethiopia must be entirely owned by Ethiopian nationals.¹⁵⁰ This strict restriction reflected the government's strategy to safeguard the domestic financial sector and prioritize local economic control. However, these restrictions limited opportunities to attract foreign capital, technological advancement, and expertise, ultimately constraining the growth of the banking industry.

Proclamation No. 1159/2019 made a shift in this stance by allowing Foreign Nationals of Ethiopian Origin (FNEOs) to invest in Ethiopian banks.¹⁵¹ Article 2(22) of this amendment introduced the definition of FNEOs¹⁵², and Article 9 permitted their participation in the banking sector by repealing article 9 of proclamation no 592/2008.¹⁵³ This move aimed to encourage investment from the Ethiopian diaspora while still maintaining restrictions on full foreign ownership.¹⁵⁴ Despite its significance, the amendment stopped short of granting access to foreign banks or investors, signaling a cautious and measured liberalization approach.

The most significant liberalization came with Proclamation No. 1360/2025, which opened Ethiopia's banking sector to foreign investors for the first time. Article 10(1) (a) of the proclamation allows foreign banks to establish subsidiaries, branches, or acquire equity stakes in existing Ethiopian banks.¹⁵⁵ Strategic foreign investors are permitted to own up to 40% of shares in Ethiopian banks, while non-strategic investors may hold between 7% and 10%.¹⁵⁶ Article 4(1)

¹⁵⁰ Banking Business Proclamation no. 592/2008, cited above at note 5, article 9.

¹⁵¹ Banking amendment proclamation no 1959/2019, article 9.

¹⁵² Ibid, article 2(22)

¹⁵³ Ibid, article 9.

¹⁵⁴ Ibid.

¹⁵⁵ Banking Business Proclamation no. 1360/2025, cited above at note 136, Article 10 (1) (a)

¹⁵⁶ Ibid, Article 10 (1) (c), Strategic foreign investors are defined under article 2(66) as a foreign bank or a banking group with inbuilt good reputation in its country of incorporation or owned by the government of the country where it was incorporated, or international development finance institution, private equity fund or other similar entities to be determined by the National Bank and meet the minimum vetting criteria to be set by the National Bank directive;

(c) further outlines the procedures foreign banks must follow to obtain licenses from the National Bank of Ethiopia (NBE).¹⁵⁷ This policy change aims to modernize the banking system by fostering competition, introducing advanced technologies, and attracting foreign direct investment (FDI).

The regulatory framework of Ethiopia's banking sector was initially codified in Proclamation No. 592/2008, which provided the foundation for licensing and supervision.¹⁵⁸ Article 12(1) granted the National Bank of Ethiopia (NBE) the authority to regulate and oversee all banking activities in the country. This included setting capital adequacy requirements, as specified in Article 14(2), and establishing limits on large exposures to single borrowers under Article 17. These measures were designed to ensure the stability and solvency of the financial system.

Proclamation No. 1159/2019 introduced enhancements to the regulatory framework, including provisions for digital financial services and agent banking.¹⁵⁹ Article 22 of the proclamation permitted banks to use agents to expand their reach, particularly in underserved rural areas. Additionally, Article 31 strengthened the NBE's powers to address systemic risks and enforce compliance with banking regulations. These changes reflected a commitment to modernizing the sector and improving financial inclusion.

Consumer protection was not explicitly addressed in Proclamation No. 592/2008, as the focus was primarily on regulatory and supervisory aspects of the banking sector. However, the introduction of Proclamation No. 1159/2019 marked a turning point by incorporating measures aimed at safeguarding consumers.¹⁶⁰ Article 28 established the right to information, requiring banks to provide customers with clear and accurate information about their products and services.¹⁶¹ These provisions were designed to build trust in the banking system and promote consumer confidence.

Proclamation No. 1360/2025 expanded on these protections by imposing additional obligations on foreign banks. It requires all banks, including foreign entrants, to comply with the directives issued by the NBE on fairness, transparency, and accountability. This includes ensuring that

¹⁵⁷ Ibid , Article 4 (1) (c)

¹⁵⁸ Banking Business Proclamation no. 592/2008, cited above at note 5, article 3.

¹⁵⁹ Banking amendment proclamation no 1959/2019, cited at note 151,article 2(9)

¹⁶⁰Ibdi, article 57.

¹⁶¹ Ibid, article 28.

consumers have equitable access to financial services and those fees and charges are disclosed in a clear and understandable manner. It also emphasizes the protection of personal data, obligating banks to implement robust data security measures to safeguard sensitive customer information. Furthermore, the proclamation addresses predatory lending practices by requiring banks to provide fair and responsible lending terms, particularly for vulnerable populations. These measures aim to foster consumer trust in an increasingly diversified financial sector.

Under the Banking Business Proclamation No. 592/2008 and its amendment **Proclamation No. 1159/2019**, mergers and acquisitions in the Ethiopian banking sector are subject to stringent regulatory oversight by the National Bank of Ethiopia (NBE).¹⁶² The original proclamation mandates that any merger or acquisition involving banks must receive prior approval from the NBE, ensuring that the financial health and compliance status of the merging entities are thoroughly evaluated (Proclamation No. 592/2008, Article 10).¹⁶³ The 2019 amendment further modernizes the framework by allowing foreign nationals of Ethiopian origin to invest in the banking sector, thereby encouraging foreign investment and bringing in additional capital and expertise (Proclamation No. 1159/2019, Article 3). Additionally, the amendment reinforces the need for banks to meet higher capital requirements, aligning with international standards to enhance the stability and resilience of the banking system (Proclamation No. 1159/2019, Article 4). These regulations collectively aim to promote a stable, competitive, and consumer-friendly banking environment in Ethiopia.

The Banking Business Proclamation No. 1360/2025 builds upon these existing regulations by introducing significant changes aimed at further modernizing the sector and opening it up to foreign participation.¹⁶⁴ The proclamation allows foreign banks to establish subsidiaries, branches, or acquire shares in existing domestic banks, thereby increasing competition and efficiency in the sector.¹⁶⁵ It also introduces a regulatory sandbox framework for innovative

¹⁶² Banking Business Proclamation no. 592/2008, cited above at note 5.

¹⁶³ Ibid, article 10

¹⁶⁴ PRESS RELEASE by NBE on the approval of the proclamation no 1360/2025 NBE Proclamation and Banking Business Proclamation by the Council of Ministers 14 June 2024 | Addis Ababa, Ethiopia. Available at https://nbe.gov.et/wp-content/uploads/2024/06/Press-Release_Proclamation.pdf, accessed 24 June 2024.

¹⁶⁵ 'Bill Allowing Foreign Banks in Ethiopia Passes First Reading in Parliament' – Ethiopian Monitor, (2024), available at <https://ethiopianmonitor.com/2024/06/25/bill-allowing-foreign-banks-in-ethiopia-passes-first-reading-in-parliament/>, accessed on May 25, 2024.

financial services and enhances the NBE’s authority to take corrective actions on banks having problems.¹⁶⁶ These changes are designed to improve the competitiveness and stability of the Ethiopian banking sector, ensuring it can meet the demands of a rapidly evolving global financial landscape¹⁶⁷.

The Proclamation also addresses the merger of banks under for the fusion of two more banks moving towards the creation of a new entity where the former banks lose their legal existence.¹⁶⁸ This Proclamation indicates that voluntary merger is an option considering such a move is predicated upon prior written approval from the NBE.¹⁶⁹ A statutory merger is also envisioned where the central bank intends to save a bank having a problem from risks to which it exposed and/or intends to establish a more viable and stronger bank to “rescue a bank having problem or create a more viable bank” with the permission of the NBE, which will have the power to approve the acquisition of a bank by another bank, including a foreign one.¹⁷⁰ It provides that any merger or acquisition proposal will also need to be decided by an extraordinary general shareholders’ meeting of the bank.¹⁷¹

The proclamation covers issues related to the merger, acquisition, and significant ownership of banks, as well as the transfer of assets and liabilities between banks.¹⁷² The National Bank has been granted the authority and responsibility (Resolution Authority) to provide solutions and support when a financial crisis occurs in a bank.¹⁷³ The regulations included in this section are new and not part of the formerly existing law.

According to the provisions in this section, no bank can voluntarily merge without prior written approval from the National Bank.¹⁷⁴ The National Bank can facilitate mergers to rescue troubled

¹⁶⁶ PRESS RELEASE by NBE on the approval of the proclamation no 1360/2025 NBE Proclamation and Banking Business Proclamation, cited at note 164.

¹⁶⁷ Ibid.

¹⁶⁸ Banking business proclamation no 1360/2025 cited at note at 136,article 2(47))

¹⁶⁹ Ibid. article 2(68).

¹⁷⁰ Ibid article 2(65)

¹⁷¹ Ibid, article 33(6)

¹⁷² Banking business proclamation no 1360/2025 cited at note at 136(Section 9 (Articles 33, 34 &35)

¹⁷³ Ibid, article 2(58)

¹⁷⁴ Ibid, article 32 (1)

banks and/or create stronger banks.¹⁷⁵ Any transfer of significant ownership shares in a bank must be approved by the National Bank before being registered in the share register.¹⁷⁶ Additionally, no bank can transfer its assets or liabilities to another bank without prior written approval from the National Bank.¹⁷⁷

3.3 Regulatory Framework for Mergers and Acquisitions of local banks in Ethiopia

The regulatory framework for mergers and acquisitions (M&As) of banks in Ethiopia is overseen by the National Bank of Ethiopia (NBE), which acts as the guardian of the country's monetary and financial systems.¹⁷⁸ The NBE's mandate includes maintaining price and external stability while ensuring a safe, modern, and inclusive financial system.¹⁷⁹ This encompasses enforcing legal requirements, exercising prudential supervision, and setting capital requirements for banks to enhance sector efficiency and protect depositor interests.¹⁸⁰ To prevent negative impacts on financial growth and stability, whether strategic or regulatory-driven, the NBE closely monitors mergers.¹⁸¹ The NBE's approach is informed by the need to prepare local banks for the impending competition from foreign banks entering the Ethiopian market, prompting the enforcement of mergers and acquisitions to strengthen domestic institutions.¹⁸²

As of June 2023, the Ethiopian banking sector comprises more than 30 banks, including one large public bank, five medium-sized banks, and 24 small banks, with a collective capital of 212.4 billion birr.¹⁸³ However, the market is dominated by one public bank, which holds almost

¹⁷⁵ Ibid, article 32 (2)

¹⁷⁶ Ibid, article 33 (1)

¹⁷⁷ Ibid, article 34(1)

¹⁷⁸ Nation Bank of Ethiopia (NBE) to Enforce Mergers Among Local Banks - Ethio Negari (August 15, 2022), available at <https://ethionegari.com/2022/08/15/nation-bank-of-ethiopia-nbe-to-enforce-mergers-among-local-banks/>

¹⁷⁹ Ibid.

¹⁸⁰ Ibid.

¹⁸¹ Dawit Taye, 'To Survive Foreign Competition, Central Bank Governor Suggests Mandatory Mergers, Acquisitions', (13 August 2022), (thereporterethiopia.com), available at <https://www.thereporterethiopia.com/25744/>, accessed 18 August 2024.

¹⁸² Ibid.

¹⁸³ Ameha Hailemariam , 'Strengthening Ethiopia's financial sector: The case for mergers in banking',(2024), available at <https://www.thereporterethiopia.com/39951/>, accessed 17 May 2024.

half of the sector's total assets and deposits (49.5 percent and 48.7 percent, respectively).¹⁸⁴ Additionally, more than half of the country's banks have yet to meet the new capital requirement.¹⁸⁵ The NBE faces challenges due to a lack of skilled human resources, which the Basel accords highlight as essential for effective regulation.¹⁸⁶ Building expertise and professional human power takes years and investment of resources.¹⁸⁷ In contrast, the South African Reserve Bank (SARB) is well resourced and has built a highly skilled professional workforce.¹⁸⁸ The NBE should be allocated the necessary resources to build the skills and expertise of its staff before Ethiopia allows the investment of foreign banks.¹⁸⁹

The Banking Business Proclamation no 1360/2025, set to repeal Proclamation No. 592/2008 and its amending proclamation no. 1159/2019,¹⁹⁰ introduces several key provisions specifically addressing M&As in Ethiopia's banking sector. The draft allows the NBE to approve the acquisition of a bank by another domestic or foreign bank to ensure financial stability.¹⁹¹ It proposes to increase the cap on foreign ownership in domestic commercial banks from 30% to 40% to attract more foreign investment while maintaining a level of local control.¹⁹² Additionally, the NBE can grant exceptional approval for a foreign bank to acquire a local bank in full after conducting due diligence.¹⁹³ Furthermore, it allows banks to employ foreign

¹⁸⁴ Ibid.

¹⁸⁵ Ibid.

¹⁸⁶ Confidential interviews facilitated by the Change Management, Planning, and Communication Directorate of the NBE were conducted with senior experts and advisors from the Bank Supervision Directorate, Microfinance Institutions Supervision Directorate, Monetary and Financial Analysis Directorate, Payment Settlement System Directorate, and the Advisor to the Vice Governor of Financial Institutions and Corporations (FIC).

¹⁸⁷ Ibid.

¹⁸⁸ Home (resbank.co.za), available at <https://www.resbank.co.za/>, accessed May 24 2024.

¹⁸⁹ Mesfin D. Mekonnen , 'Liberalization of Ethiopia's Banking Sector and Its Legal Implication on the Regulation Of Banks', (2017), available at https://repository.up.ac.za/bitstream/handle/2263/64624/Mekonnen_Liberal_2017.pdf?sequence=1, accessed on 10 August,2024, P 51

¹⁹⁰ Banking business proclamation no 1360/2025 cited at note at 136, article 94.

¹⁹¹ Ibid , (Article 32(1))

¹⁹² Ibid. (Article 10(1) (d))

¹⁹³ Ibid. (Article 10 (1) (a))

nationals in senior executive roles, including as president, with permission from the NBE, which will set the threshold for the number of foreign employees a bank can employ.¹⁹⁴

The Banking Business Proclamation no 1360/ 2025 also introduces the concept of statutory mergers, where the NBE can intervene to save a problem bank from risks or to establish a more viable and stronger bank.¹⁹⁵ This provision allows the NBE to approve the acquisition of a bank by another bank, including foreign banks, to rescue troubled institutions or create more entities that are robust.¹⁹⁶ An extraordinary general shareholders' assembly, ensuring that shareholders have a say in significant corporate decisions, must decide any merger or acquisition proposal.¹⁹⁷

3.4 Ethiopian Banks M&As Laws in Light of International Standards.

Ethiopian banking mergers and acquisitions (M&As) are regulated by the Commercial Code of Ethiopia, the Banking Business Proclamation, and directives from the National Bank of Ethiopia (NBE). These laws offer a foundational framework, but they lack critical protections for minority shareholders and transparency measures compared to international standards like those set by the OECD.¹⁹⁸ Minority shareholders are often vulnerable due to insufficient legal mechanisms, while inadequate transparency requirements hinder the public and regulatory scrutiny of M&A processes.

Proclamation No. 1360/2025 marks a significant shift by permitting foreign participation in Ethiopia's banking sector. Foreign banks can operate directly, as subsidiaries, or through representative offices focused on liaison and marketing activities. Investments must be made in foreign currency, and foreign parent banks are required to hold a controlling interest of at least 50%.¹⁹⁹ The proclamation includes provisions for due diligence, consumer protection, and anti-competitive practices to enhance financial stability, although it highlights the need for stronger shareholder rights and operational transparency.

¹⁹⁴ Ibid.(Article 15)

¹⁹⁵ Ibid , (Article 32(2))

¹⁹⁶ Ibid , (Article 32(3))

¹⁹⁷ Ibid , (Article 33(3))

¹⁹⁸ [Gebeyaw Simachew](https://www.abysinnialaw.com/blog/ethiopian-share-company-law-in-light-of-oecd-principles-of-corporate-governance), 'Ethiopian Share Company Law in Light of OECD Principles of Corporate Governance', (2015), available at <https://www.abysinnialaw.com/blog/ethiopian-share-company-law-in-light-of-oecd-principles-of-corporate-governance>, accessed 10 August 2024.

¹⁹⁹ Banking business proclamation no 1360/2025 cited at note 136, article 2(32)

Comparatively, M&A regulations in Kenya and Tanzania offer valuable lessons. Kenya's framework, underpinned by the Companies Act and Banking Act, requires approval from the Central Bank of Kenya (CBK) and Competition Authority of Kenya (CAK), emphasizing corporate governance, transparency, and disclosure.²⁰⁰ Tanzania's regulations focus on capital adequacy and extensive due diligence, with the Bank of Tanzania (BoT) ensuring consumer protection and competitive market practices. Both countries demonstrate alignment with international norms, including operational autonomy for their central banks.

Globally, countries like the United States, the European Union, and India uphold robust M&A frameworks that emphasize capital adequacy, consumer protection, and transparency. For example, the U.S. Federal Reserve Board ensures comprehensive evaluations under the Bank Holding Company Act and Dodd-Frank Act, while the EU Merger Regulation relies on the European Central Bank for oversight. India integrates due diligence and competitive assessments through its Reserve Bank and Competition Commission. The Bank Merger Act and its companion statute, the Bank Holding Company Act, direct the federal banking agencies to consider four main factors when evaluating a proposed merger: (1) the proposal's potential anticompetitive effects, (2) possible risks to financial stability, (3) the transaction's probable effect on the public interest, and (4) the companies' financial and managerial resources.²⁰¹ The statutes authorize the agencies to reject a merger proposal if any one of these factors weighs against approval

The experiences of Kenya and Nigeria provide further insights into the economic benefits of effective M&A regulation. Kenya has witnessed 34 mergers and 15 acquisitions since 1989, generating significant economic gains of approximately USD 900 million. Nigeria's banking reforms since 2004 have resulted in 89 mergers, boosting real GDP growth and stabilizing its financial sector.

Ethiopia faces challenges in its readiness for M&As, including regulatory gaps, limited technological capacity, and resource constraints within its banking sector. These obstacles hinder

²⁰⁰'Mergers & Acquisitions', Competition Authority of Kenya, available at <https://www.cak.go.ke/mergers/overview>, accessed 24 August 2024.

²⁰¹ Bank Merger Act, 12 U.S.C. § 1828(c) (2018); Bank Holding Company Act of 1956 § 3(c), 12 U.S.C. § 1842(c) (2018). This Article refers to the Bank Merger Act and Bank Holding Company Act collectively as the "bank merger statutes."

the ability of local banks to compete effectively with foreign entrants as the sector opens up. Despite these hurdles, M&As represent an opportunity to strengthen financial stability and foster economic growth, provided reforms are implemented to align Ethiopia's practices with international standards.

To prepare for successful M&As, Ethiopia must strengthen its legal framework to protect minority shareholders, enhance NBE's operational autonomy, improve transparency and disclosure requirements, and invest in capacity building for banking executives and staff. These reforms are crucial to creating a competitive and stable banking environment that aligns with global norms and unlocks the potential for economic progress. Lessons from Kenya, Tanzania, and other countries provide valuable guidance for Ethiopia's efforts to enhance its banking sector.

4. MAJOR FINDINGS AND RECOMMENDATION

4.1 CONCLUSION

Ethiopia's Banking Business Proclamation No. 1360/2025 aligns with key Basel III principles, particularly in capital requirements, liquidity management, and risk-based supervision. Basel III emphasizes stronger capital buffers to ensure banks maintain adequate reserves against financial shocks, a principle reflected in Ethiopia's minimum capital thresholds for foreign banks. Additionally, Basel III introduces liquidity standards such as the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) to enhance solvency during crises. While Ethiopia's proclamation does not explicitly mandate these ratios, the National Bank of Ethiopia (NBE) is expected to introduce liquidity regulations in line with international best practices. The proclamation also strengthens risk-based supervision, requiring foreign banks to comply with stringent regulatory oversight and eligibility criteria, similar to Basel III's focus on stress testing and financial transparency. However, a key distinction remains: Basel III does not regulate foreign bank entry, whereas Ethiopia's proclamation explicitly defines investment modalities, allowing foreign banks to operate as subsidiaries, branches, or shareholders within domestic banks. This approach reflects Ethiopia's commitment to global banking standards while adapting regulations to its specific economic landscape.

The proclamation represents a landmark shift in Ethiopia's banking sector, introducing transformative measures that surpass previous legislations. A key innovation is the comprehensive legal framework for mergers and acquisitions (M&As), which were previously

not explicitly addressed. Earlier laws, such as Proclamation No. 592/2008 and its amendment No. 1159/2019, focused on general banking operations without detailing mechanisms for mergers. The new proclamation rectifies this by establishing clear procedures for the seamless transfer of financial and non-financial assets, ensuring operational continuity during corporate restructuring. Additionally, it enhances the NBE's authority, granting it broader regulatory powers to oversee mergers, approve transactions, and intervene in failing banks an expansion from earlier legislations that had narrower oversight.

Another notable advancement is the inclusion of provisions allowing foreign banks to participate in Ethiopia's banking sector. Previous laws restricted foreign ownership, limiting competition and innovation. In contrast, Proclamation No. 1360/2025 permits foreign banks to acquire stakes in Ethiopian banks or establish subsidiaries and branches, subject to ownership limits. This change aims to attract foreign direct investment, increase competition, and drive modernization within the sector. Furthermore, the proclamation mandates stricter compliance with capital adequacy and licensing requirements, ensuring that merged entities remain financially sound. By facilitating mergers, the law addresses market fragmentation, enabling the formation of stronger, more competitive banking institutions that can expand their reach and promote financial inclusion.

The proclamation also introduces mechanisms for resolving banks in financial distress, protecting depositors and ensuring minimal disruption to the financial system. Additionally, its alignment with international best practices enhances transparency, accountability, and investor confidence. Earlier laws were domestically focused and less attuned to global standards, limiting Ethiopia's ability to integrate its banking sector with the global financial system. The new legislation modernizes the sector, creating a conducive environment for sustainable growth and positioning Ethiopian banks to compete internationally.

Overall, Proclamation No. 1360/2025 represents a significant step forward, embodying a vision for a robust, inclusive, and competitive banking system that aligns with global standards while addressing Ethiopia's unique financial landscape.

On the basis of the above-mentioned findings, the writer would like to make the following recommendations.

4.2 RECOMMENDATIONS

To foster a resilient and transparent environment for mergers and acquisitions (M&As) in Ethiopia's banking sector, the National Bank of Ethiopia (NBE) should integrate Basel III principles into its regulatory framework by reinforcing capital adequacy requirements, implementing advanced liquidity standards—such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR)—and enhancing risk-based supervision through regular stress testing and heightened financial transparency, while also developing comprehensive directives and guidelines to ensure the effective implementation of these measures; by adopting these strategies, the NBE can establish a robust and competitive M&A framework that maintains financial stability and modernizes the sector, thereby boosting investor confidence, promoting financial inclusion, and driving sustainable economic growth.

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