

# REVIEWED GUIDELINES FOR THE REGULATION AND SUPERVISION OF MICROFINANCE BANKS

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In the circular dated March 3, 2020, the Central Bank of Nigeria ("CBN") released the exposure draft of the reviewed Guidelines for the Regulation and Supervision of Microfinance Banks in Nigeria (January 2020) (the "Exposure Guidelines"). The CBN in the circular indicated that the 2012 Revised Supervisory and Regulatory Guidelines for Microfinance Banks in Nigeria ("2012 Guidelines") have been reviewed to strengthen and complement the on-going reform in the Microfinance Bank ("MFB") sub-sector. It was explained that the need to reposition and strengthen MFBs towards improved performance has become apparent as revealed from the report of a recent review of the sub-sector. The Exposure Guidelines incorporates the new minimum capital requirement for MFBs in Nigeria further to the CBN circular dated October 22, 2018 and March 7, 2019 on Review of Minimum Capital Requirements for MFBs in Nigeria.

## Categories of MFBs

In Paragraph 3.0 of the Exposure Guidelines, four (4) categories of MFBs are created: -

- a.) Tier 1 Unit MFB: A Unit MFB with authorisation to operate in banked and high density areas, and is allowed to open not more than four (4) branches outside the head office within five (5) contiguous local government areas. The minimum capital requirement is N200 Million. Under the CBN circular dated March 7, 2019 on Review of Minimum Capital Requirements for MFBs in Nigeria ("2019 Circular"), a Tier 1 Unit MFB shall meet N100 Million capital threshold by April 2020 and N200 Million capital threshold by April 2021.
- b.) Tier 2 Unit MFB: A Unit MFB with authorisation to operate only in rural, unbanked or underbanked areas, and is allowed to open one (1) branch outside the head office within the same local government area. Minimum capital requirement is N50 Million. Under the 2019 Circular, a Tier 2 Unit MFB shall meet N35 Million capital threshold by April 2020 and N50 Million by April 2021.
- c.) State MFB: An MFB with authorisation to operate in one state or the Federal Capital Territory ("FCT"). It is permitted to open branches within the State of operation or the FCT but shall not be allowed to open more than two (2) branches in the same local government area unless it has established at least one (1) branch or cash centre in every local government of the State. Minimum capital requirement is N1 Billion.

Under the 2019 Circular, a State MFB shall meet N500 Million capital threshold by April 2020 and N1 Billion by April 2021.

d.) National MFB: An MFB with authorisation to operate in more than one (1) State including the FCT. A newly licensed national MFB shall not commence operations with more than ten (10) branches. This reason for this restriction is unknown. Since this is a national licence, it will appear that what should be of importance is the capital base and capacity to manage more than ten (10) branches. The minimum capital requirement is N5 Billion. Under the 2019 Circular, a National MFB shall meet N3.5 Billion capital threshold by April 2020 and N5 Billion by April 2021.

## New Provisions in the Exposure Guidelines

### 1. Permissible Activities

Permissible activities under the Exposure Guidelines have been expanded to include the following: -

a. Provision of Housing Micro Loans: The Exposure Guidelines defines Housing Microfinance to mean provision of microcredit to low-income households to renovate or improve their existing homes, construct basic infrastructure expand their existing homes, or build new homes, incrementally one loan at a time including financial services such as access to savings, remittances and micro insurance. Under the 2012 Guidelines, MFBs were permitted to provide loans to microfinance clients for home improvement, housing microfinance and consumer credits. It would appear that the intention of the Exposure Guideline is to expand the activities being provided by MFBs under the 2012 Guidelines.

b. Issuance of Domestic Commercial Paper: Under the 2012 Guidelines, MFBs may investment in Bank Acceptances and commercial papers. However, it was not expressly provided that they may issue domestic commercial papers.

c.) Appointment of agents to provide financial services on its Behalf in line with CBN Agent Banking Guidelines: Agent banking is the provision of financial services through third party agents.

d.) Participate in CBN Intervention Funds: The CBN in 2019 indicated that it will introduce specialised intervention funds for MFBs as well as increase its share of micro credits as a percentage of total credits to 20%.

## 2. Government Participation in MFB

The Exposure Guidelines introduced the following three (3) models for government participation in MFBs:

i.) Fully Owned Government MFB Model: This is a State or local government 100% owned MFB which is to be progressively divested to the private sector within a maximum of five (5) years. This can be established as State or Unit MFB.

ii.) Public-Private Partnership Model: Under this model a State or local government will collaborate with private sector to set up an MFB which is to be progressively divested to the private sector within a maximum of five (5) years. Maximum shareholding of government shall be 60%.

iii.) Government Sponsored Co-operative Model: In this model, a State government will support a co-operative society to set up a Unit MFB. The government and co-operative society will have a shareholding ratio of 75:25 and members of the society will through savings and accumulated profit progressively repay government's investment in the MFB.

## 3. Other Provisions

i.) Operation Guidelines for CBN

Intervention Funds: The Exposure Guidelines provide operational requirements for participation in the CBN intervention funds including credit risks and single obligor limit.

ii.) Rendition of Corporate Governance and Whistle Blowing Returns: MFBs are now required to render corporate governance and whistle blowing returns on semi-annual basis and comply with the requirement of guidelines of whistle blowing in the Nigeria banking industry.

iii.) Compliance with Risk-Based Cybersecurity Framework: MFBs are now required to comply with the requirement of risk-based cybersecurity policies of CBN as issued from time to time.

## Key Contacts:

### Kunle Soyibo

Co-ector Head, Financial Services  
kunlesoyibo@jacksonettiandedu.com

### Okey Nnebedum

Co-Sector Head, Financial Services  
okeynnebedum@jacksonettiandedu.com