

CENTRAL BANK OF NIGERIA



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CIRCULAR LETTER

TO ALL DIRECTORS AND SHAREHOLDERS OF MICROFINANCE BANKS

REVISED MICROFINANCE POLICY REGULATORY AND SUPERVISORY FRAMEWORK FOR NIGERIA

The Board of Directors of the CBN has approved the Revised Microfinance Policy Supervisory and Regulatory Framework for Nigeria. The revised policy provides for three categories of microfinance banks (MFBs) and stipulated minimum capital requirements for each category, viz:

- i) *Category 1: Unit Microfinance Banks* are those authorized to operate in one (1) location, with a minimum paid-up capital of ₦20 million and are prohibited from having branches/cash centres.
- ii) *Category 2: State Microfinance Bank* are those authorized to operate within one state or the Federal Capital Territory (FCT), with a minimum paid-up capital of ₦100 million and are allowed to open branches/cash centres within the same state, subject to prior approval of the CBN in writing.
- iii) *Category 3: National Microfinance Bank* are those authorized to operate in more than one state, including the FCT with a minimum paid-up capital of ₦2 billion and are allowed to have branches in any part of the country, subject to prior approval of the CBN in writing.

Implication for new and existing MFBs

In implementing the Revised Microfinance Policy Framework, therefore, new (*de novo*) MFBs coming on board will naturally be required to meet the stipulated

minimum capital requirement. However, for existing MFBs, the interpretation of the minimum capital requirement shall be Shareholders' Fund unimpaired by losses.

In addition, existing MFBs will require some time to raise additional capital, where necessary, or to restructure their operations to conform to the revised Microfinance Policy Framework. This is because many of the MFBs that currently operate as *Unit* MFBs under the former Microfinance Policy Framework also have existing approved branches and cash centres, which would require that they either transform to State MFBs under the Revised Microfinance Policy Framework, or rationalize those branches, subject to CBN approval.

Indeed, existing MFBs have the following options to comply with the revised Microfinance Policy Framework:

- i) Raise fresh capital to bring the capital base to the stipulated minimum of ₦100 million shareholders' funds unimpaired by losses, to become a State MFB under the revised framework; or
- ii) Obtain regulatory approval of the CBN to close all existing branches and cash centres and remain a unit MFB with a minimum capital requirement of ₦20 million shareholders' funds unimpaired by losses; or
- iii) Enter into business combination in form of mergers and acquisition, such that the consolidated capital base of the combined institutions meets the stipulated capital requirement of a State MFB or National MFB, as the case may be.

For the avoidance of doubt, it is extremely important to emphasize that, 'customer interaction centres', 'meeting points', 'customer service centres' and all outlets, by whatever name called, once located outside the registered business premises of the MFB, will be regarded as branches/cash centres. MFBs with such outlets will therefore be required to meet the stipulated capital requirement for a State MFB, or close them, subject to prior approval of the CBN in writing.

Furthermore, an existing State MFB under the former Microfinance Policy Framework may choose to remain a State MFB in the new dispensation. In which case, it is not required to do anything. It may also decide to convert to a National MFB by raising additional capital to shore up its capital base to the stipulated minimum of ₦2.0 billion shareholders' funds unimpaired by losses for a National MFB.

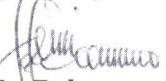
Timeline for Compliance

In exercising any of these options, existing MFBs have been granted eighteen months ending 31st December, 2012 to comply with the Revised Microfinance Policy Framework. All MFBs are, therefore, required to ensure compliance within the stipulated timeline.

Submission of Compliance Plan

To facilitate monitoring and ensure compliance within the stipulated timeline, each existing MFB is required by this circular to submit to the Director, Other Financial Institutions Supervision Department, a Compliance Plan indicating which category of MFB it wishes to belong and its programme for raising additional capital and/or closing existing branches/cash centres, subject to prior approval of the CBN in writing. The Compliance Plan should be submitted on or before 31st December, 2011.

Failure to submit a Compliance Plan within the stipulated timeline, or to adhere to the plan, will be regarded as failure to comply with a directive issued by the CBN, which is a ground for revocation of licence, as stated in section 20.3 (h) of the Regulatory and Supervisory Guidelines for MFBs.


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