MICROFINANCE POLICY, REGULATORY AND SUPERVISORY FRAMEWORK FOR NIGERIA

CENTRAL BANK OF NIGERIA,
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LIST OF ACRONYMS

ACGS -	Agricultural Credit Guarantee Scheme
BOFIA -	Bank and Other Financial Institutions Act
CAC -	Corporate Affairs Commission
CAMA -	Companies and Allied Matters Act
CBN -	Central Bank of Nigeria
CBS -	Community Banks
FEAP -	Family Economic Advancement Programme
LGA -	Local Government Area
MFB -	Micro Finance Bank
MFBs -	Micro Finance Banks
MFIs -	Micro Finance Institutions
MSME -	Micro, Small and Medium Enterprises
NACB -	Nigerian Agricultural Cooperative Bank Limited
NACRDB-	Nigerian Agricultural Co-operative and Rural Development Bank Limited
NAIC -	Nigerian Agricultural Insurance Corporation
NAPEP -	National Poverty Eradication Programme
NDE -	National Directorate of Employment
NDIC -	Nigerian Deposit Insurance Corporations
NEEDS -	National Economic Empowerment and Development Strategy
NGO -	Non Governmental Organization
NMFCC -	National Micro Finance Consultative Committee
PBN -	Peoples Bank of Nigeria
ROSCAs-	Rotating Savings and Credit Associations
RRF -	Refinancing and Rediscounting Facility
SHGs -	Self Help Groups
SMEEIS-	Small and Medium Enterprises Equity Investment Scheme
VAT -	Value Added Tax

MICROFINANCE POLICY, REGULATORY AND SUPERVISORY FRAMEWORK FOR NIGERIA

1.0 INTRODUCTION

1.1 Robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth.

1.2 Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Three features distinguish microfinance from other formal financial products. These are: (i) the smallness of loans advanced and or savings collected, (ii) the absence of asset-based collateral, and (iii) simplicity of operations.

1.3 In Nigeria, the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services. This 65% are often served by the informal financial sector, through Non-Governmental Organization (NGO)-microfinance institutions, moneylenders, friends, relatives, and credit unions. The non-regulation of the activities of some of these institutions has serious implications for the Central Bank of Nigeria's (CBN's) ability to exercise one aspect of its mandate of promoting monetary stability and a sound financial system.

1.4 A microfinance policy which recognizes the existing informal institutions and brings them within the supervisory purview of the CBN would not only enhance monetary stability, but also expand the financial infrastructure of the country to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs). Such a policy would create a vibrant microfinance sub-sector that would be adequately integrated into the mainstream of the national financial system and provide the stimulus for growth and development. It would also harmonize operating standards and provide a strategic platform for the evolution of microfinance institutions, promote appropriate regulation, supervision and adoption of best practices. In these circumstances, an appropriate policy has become necessary to develop a long-term, sustainable microfinance sub-sector.

1.5 The purpose of this policy paper, therefore, is to present a National Microfinance Policy Framework for Nigeria that would enhance the provision of diversified microfinance services on a long-term, sustainable basis for the poor and low income groups. The policy would create a platform for the establishment of microfinance banks; improve the CBN's regulatory/supervisory performance in ensuring monetary stability and liquidity management; and provide an appropriate machinery for tracking the activities of development partners in the microfinance sub-sector in Nigeria.

1.6 This policy has been prepared in exercise of the powers conferred on the Central Bank of Nigeria by the provisions of Section 28, sub-section (1) (b) of the *CBN Act 24 of 1991* [as amended] and in pursuance of the provisions of Sections 56-60(a) of the *Banks and Other Financial Institutions Act [BOFIA] 25 of 1991* [as amended].

1.7 The policy paper has benefitted from wide consultations, through the conduct of a baseline survey on the activities of microfinance institutions (MFIs) in Nigeria, national and international consultative stakeholders' fora, as well as study tours to India, Pakistan, Indonesia, Philippines and Uganda.

2.0 OVERVIEW OF MICROFINANCE ACTIVITIES IN NIGERIA

2.1 The practice of microfinance in Nigeria is culturally rooted and dates back several centuries. The traditional microfinance institutions provide access to credit for the rural and urban, low-income earners. They are mainly of the informal Self-Help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs) types. Other providers of microfinance services include savings collectors and co-operative societies. The informal financial institutions generally have limited outreach due primarily to paucity of loanable funds.

2.2 In order to enhance the flow of financial services to Nigerian rural areas, Government has, in the past, initiated a series of publicly-financed micro/rural credit programmes and policies targetted at the poor. Notable among such programmes were the Rural Banking Programme, sectoral allocation of credits, a concessionary interest rate, and the Agricultural Credit Guarantee Scheme (ACGS). Other institutional arrangements were the establishment of the Nigerian Agricultural and Co-operative Bank Limited (NACB), the National Directorate of Employment (NDE), the Nigerian Agricultural Insurance Corporation (NAIC), the Peoples Bank of Nigeria (PBN), the Community Banks (CBs), and the Family Economic Advancement Programme (FEAP). In 2000, Government merged the NACB with the PBN and FEAP to form the Nigerian Agricultural Co-operative and Rural Development Bank Limited (NACRDB) to enhance the provision of finance to the agricultural sector. It also created the National Poverty Eradication Programme (NAPEP) with the mandate of providing financial services to alleviate poverty.

2.3 Microfinance services, particularly, those sponsored by government, have adopted the traditional supply-led, subsidized credit approach mainly directed to the agricultural sector and non-farm activities, such as trading, tailoring, weaving, blacksmithing, agro-processing and transportation. Although the services have resulted in an increased level of credit disbursement and gains in agricultural production and other activities, the effects were short-lived, due to the unsustainable nature of the programmes.

2.4 Since the 1980s, Non-Governmental Organizations (NGOs) have emerged in Nigeria to champion the cause of the micro and rural entrepreneurs, with a shift from the supply-led approach to a demand-driven strategy. The number of NGOs involved in microfinance activities has increased significantly in recent times due largely to the inability of the formal financial sector to provide the services needed by the low income groups and the poor, and the declining support from development partners amongst others. The NGOs are charity, capital lending and credit-only membership based institutions. They are generally registered under the *Trusteeship Act* as the sole package or part of their charity and social programmes of poverty alleviation**.** The NGOs obtain their funds from grants, fees, interest on loans and contributions from their members. However, they have limited outreach due, largely, to unsustainable sources of funds.

3.0 JUSTIFICATION FOR THE ESTABLISHMENT OF MICROFINANCE BANKS

From the appraisal of existing microfinance-oriented institutions in Nigeria, the following facts have become evident:

3.1 Weak Institutional Capacity: The prolonged sub-optimal performance of many existing community banks, microfinance and development finance institutions is due to incompetent management, weak internal controls and lack of deposit insurance schemes. Other factors are poor corporate governance, lack of well defined operations and restrictive regulatory/supervisory requirements.

3.2 Weak Capital Base: The weak capital base of existing institutions, particularly the present community banks, cannot adequately provide a cushion for the risk of lending to micro entrepreneurs without collateral. This is supported by the fact that only 75 out of over 600 community banks whose financial statements of accounts were approved by the CBN in 2005 had up to ₦20 million shareholders' funds unimpaired by losses. Similarly, the NACRDB, with a proposed authorized share capital of ₦50.0 billion, has ₦10.0 billion paid up capital and only ₦1.3 billion shareholders' funds unimpaired by losses, as at December, 2004.

3.3 **The Existence of a Huge Un-Served Market:** The size of the un-served market by existing financial institutions is large. The average banking density in Nigeria is one financial institution outlet to 32,700 inhabitants. In the rural areas, it is 1:57,000, that is less than 2% of rural households have access to financial services. Furthermore, the 8 (eight) leading Micro Finance Institutions (MFIs) in Nigeria were reported to have mobilized a total savings of ₦222.6 million in 2004 and advanced ₦2.624 billion credit, with an average loan size of ₦8,206.90. This translates to about 320,000 membership-based customers that enjoyed one form of credit or the other from the eight NGO-MFIs. Their aggregate loans and deposits, when compared with those of community banks, represented percentages of 23.02 and 1.04, respectively. This, reveals the existence of a huge gap in the provision of financial services to a large number of active but poor and low income groups. The existing formal MFIs serve less than one million out of the over 40 million people that need the services. Also, the aggregate micro credit facilities in Nigeria account for about 0.2 percent of GDP and less than one percent of total credit to the economy.

The effect of not appropriately addressing this situation would further accentuate poverty and slow down growth and development.

3.4 Economic Empowerment of the Poor, Employment Generation and Poverty Reduction: The baseline economic survey of Small and Medium Industries (SMIs) in Nigeria conducted in 2004, indicated that the 6,498 industries covered currently employ a little over one million workers. Considering the fact that about 18.5 million (28% of the available work force) Nigerians are unemployed, the employment objective/role of the SMIs is far from being reached. One of the hallmarks of the National Economic Empowerment and Development Strategy (NEEDS) is the empowerment of the poor and the private sector, through the provision of needed financial services, to enable them engage or expand their present scope of economic activities and generate employment. Delivering needed services as contained in the Strategy would be remarkably enhanced through additional channels which the microfinance bank framework would provide. It would also assist the SMIs in raising their productive capacity and level of employment generation.

3.5 The Need for Increased Savings Opportunity: The total assets of the 615 community banks which rendered their reports, out of the 753 operating community banks as at end-December 2004, stood at ₦34.2 billion. Similarly, their total loans and advances amounted to ₦11.4 billion while their aggregate deposit liabilities stood at ₦21.4 billion for the same period. Also, as at end-December 2004, the total currency in circulation stood at ₦545.8billion, out of which ₦458.6billion or 84.12 per cent was outside the banking system. Poor people can and do save, contrary to general misconceptions. However, owing to the inadequacy of appropriate savings opportunities and products, savings have continued to grow at a very low rate, particularly in the rural areas of Nigeria. Most poor people keep their resources in kind or simply under their pillows. Such methods of keeping savings are risky, low in terms of returns, and undermine the aggregate volume of resources that could be mobilized and channeled to deficit areas of the economy. The microfinance policy would provide the needed window of opportunity and promote the development of appropriate (safe, less costly, convenient and easily accessible) savings products that would be attractive to rural clients and improve the savings level in the economy.

3.6 The Interest of Local and International Communities in Microfinancing: Many international investors have expressed interest in investing in the microfinance sector. Thus, the establishment of a microfinance framework for Nigeria would provide an opportunity for them to finance the economic activities of low income groups and the poor.

3.7 Utilization of SMEEIS Fund: As at December, 2004, only ₦8.5 billion (29.5%) of the ₦28.8 billion Small and Medium Enterprises Equity Investment Scheme (SMEEIS) fund had been utilized. Moreover, 10% of the fund meant for micro credit had not been utilized due to lack of an appropriate framework and confidence in the existing institutions that would have served the purpose. This policy provides an appropriate vehicle that would enhance the utilization of the fund.

4.0 THE MICROFINANCE POLICY

4.1 Policy Objectives

The specific objectives of this microfinance policy are the following:

i. Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services;

ii. Promote synergy and mainstreaming of the informal sub-sector into the national financial system;

iii. Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs;

iv. Contribute to rural transformation; and

v. Promote linkage programmes between universal/development banks, specialized institutions and microfinance banks.

4.2 Policy Targets

Based on the objectives listed above, the targets of the policy are as follows:

i. To cover the majority of the poor but economically active population by 2020 thereby creating millions of jobs and reducing poverty.

ii. To increase the share of micro credit as percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020; and the share of micro credit as percentage of GDP from 0.2 percent in 2005 to at least 5 percent in 2020.

iii. To promote the participation of at least two-thirds of state and local governments in micro credit financing by 2015.

iv. To eliminate gender disparity by improving women's access to financial services by 5% annually; and

v. To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually.

4.3 Policy Strategies

A number of strategies have been derived from the objectives and targets as follows:

i. License and regulate the establishment of microfinance Banks (MFBs)

ii. Promote the establishment of NGO-based microfinance institutions

iii. Promote the participation of Government in the microfinance industry by encouraging States and Local Governments to devote at least one percent of their annual budgets to micro credit initiatives administered through MFBs.

iv. Promote the establishment of institutions that support the development and growth of microfinance service providers and clients;

i. Strengthen the regulatory and supervisory framework for MFBs;

ii. Promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions;

iii. Mobilize domestic savings and promote the banking culture among low-income groups;

iv. Strengthen the capital base of the existing microfinance institutions;

v. Broaden the scope of activities of microfinance institutions;

vi. Strengthen the skills of regulators, operators, and beneficiaries of microfinance initiatives;

vii. Clearly define stakeholders' roles in the development of the microfinance sub-sector; and

viii. Collaborate with donors, coordinate and monitor donor assistance in microfinance in line with the provisions of this policy.

5.0 MICROFINANCE BANKS

THE GOALS OF MICROFINANCE BANKS

The establishment of microfinance banks has become imperative to serve the following purposes:

(i) Provide diversified, affordable and dependable financial services to the active poor, in a timely and competitive manner, that would enable them to undertake and develop long-term, sustainable entrepreneurial activities;

(ii) Mobilize savings for intermediation;

(iii) Create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living;

(iv) Enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process;

(v) Provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on a non-recourse case basis. In particular, this policy ensures that state governments shall dedicate an amount of not less than 1% of their annual budgets for the on-lending activities of microfinance banks in favour of their residents; and

(vi) Render payment services, such as salaries, gratuities, and pensions for various tiers of government.

6.0 POLICY MEASURES AND INSTRUMENTS IN THE ESTABLISHMENT OF THE FRAMEWORK FOR MICROFINANCE BANKS

Private sector-driven microfinance banks shall be established. The banks shall be required to be well-capitalized, technically sound, and oriented towards lending, based on the cash flow and character of clients. There shall be two categories of Micro Finance Banks (MFBs), namely:

(i) Micro Finance Banks (MFBs) licensed to operate **as a unit bank**, and

(ii) Micro Finance Banks (MFBs) licensed to operate in a state.

The recognition of these two categories of banks does not preclude them from aspiring to having a national coverage, subject to their meeting the prudential requirements. This is to ensure an orderly spread and coverage of the market and to avoid, in particular, concentration in areas already having large numbers of financial institutions.

An existing NGO which intends to operate an MFB can either incorporate a subsidiary MFB, while still carrying out its NGO operations, or fully convert into a MFB.

(i) *MFBs Licensed to Operate as a unit bank (a.k.a. Community Banks)*

MFBs licensed to operate as unit banks shall be community- based banks. Such banks can operate branches and/or cash centres subject to meeting the prescribed prudential requirements and availability of free funds for opening branches/cash centres. The minimum paid-up capital for this category of banks shall be ₦20.0 million for each branch.

(ii) *MFBs Licensed to Operate in a State*

MFBs licensed to operate in a State shall be authorized to operate in all parts of the State (or the Federal Capital Territory) in which they are registered, subject to meeting the prescribed prudential requirements and availability of free funds for opening branches. The minimum paid-up capital for this category of banks shall be ₦1.0 billion.

7.0 ORGANIC GROWTH PATH FOR MFBs

7.1 This policy recognizes that the current financial landscape of Nigeria is skewed against Micro, Small and Medium Enterprises (MSMEs) in terms of access to financial services. To address the imbalance, this policy framework shall promote an even spread of microfinance banks, their branches and activities, to serve the un-served but economically active clients in the rural and peri- urban areas.

7.2 The level of spread and saturation of the financial market shall be taken into consideration before approval is granted to an MFB to establish branches across the Local Government Areas and/or States, in fulfilment of the objectives of this policy. Specifically, an MFB shall be expected to have a reasonable spread in a Local Government Area or State before moving to another location, subject to meeting all necessary regulatory and supervisory requirements stipulated in the guidelines. This is to avoid concentration in already served areas and to ensure extension of services to the economically active poor, and to micro, small and medium enterprises**.**

7.3 In order to achieve the objectives of an organic growth path, a microfinance bank licensed to operate as a unit bank shall be allowed to open new branches in the same State, subject to meeting the prescribed prudential requirements and availability of minimum free funds of ₦20.0 million for each new branch. In fulfillment of this requirement, an MFB licensed to operate as a unit bank can attain the status of a State MFB by spreading organically from one location to another until it covers at least two-thirds of the LGAs of that State. When an MFB has satisfactorily covered a state and wishes to start operations in another state, it shall obtain approval and be required to again grow organically by having at least N20 million free funds unimpaired by losses for each branch to be opened in the new state.

7.4 An MFB licensed to operate in a State shall be allowed to open a branch in another State, subject to opening branches in at least two-thirds of the local governments of the State it is currently licensed to operate in the provision of ₦20.0 million free funds and, if in the view of the regulatory authorities, it has satisfied all the requirements stipulated in the guidelines.

7.5 The regulations to be issued from time to time shall be such that would encourage the organic growth path of the MFBs at all times.

7.6. However, an MFB may wish to start operations as a State Bank from the beginning and therefore not wish to grow organically from branch to branch. Such an MFB may be licensed and authorized to operate in all areas of the state from the beginning subject to the provision of a total capital base of N 1 billion. In other words, the preferred growth path for MFBs is the branch by branch expansion to become State Banks. But anyone wishing to start as a big state institution from the beginning can do so subject to availability of N1 billion and proven managerial competence.

8.0 OWNERSHIP OF MICROFINANCE BANKS

8.1 Microfinance banks can be established by individuals, groups of individuals, community development associations, private corporate entities, or foreign investors. Significant ownership diversification shall be encouraged to enhance good corporate governance of licensed MFBs.

Universal banks that intend to set up any of the two categories of MFB as subsidiaries shall be required to deposit the appropriate minimum paid-up capital and meet the prescribed prudential requirements and if, in the view of the regulatory authorities, have also satisfied all the requirements stipulated in the guidelines.

8.2 No individual, group of individuals, their proxies or corporate entities, and/or their subsidiaries, shall establish more than one MFB under a different or disguised name.

9.0 PARTICIPATION OF EXISTING FINANCIAL INSTITUTIONS IN MICROFINANCE ACTIVITIES

9.1 **Universal Banks**: Universal banks currently engaging in microfinance services, either as an activity or product and do not wish to set up a subsidiary, shall be required to set up a department/ unit for such services and shall be subjected to the provisions of the MFB regulatory and supervisory guidelines.

9.2 **Community Banks**: All licensed community banks, prior to the approval of this policy, shall transform to microfinance banks licenced to operate as a unit bank on meeting the prescribed new capital and other conversion requirements within a period of 24 months from the date of approval of this policy. Any community bank which fails to meet the new capital requirement within the stipulated period shall cease to operate as a community bank. A community bank can apply to convert to a microfinance bank licenced to operate in a State if it meets the specified capital and other conversion requirements.

9.3 **Non-Governmental Organization - Micro Finance Institutions (NGO-MFIs):** This policy recognizes the existence of credit-only, membership-based microfinance institutions which shall not be required to come under the supervisory purview of the Central Bank of Nigeria. Such institutions shall engage in the provision of micro credits to their targeted population and *not* to mobilize deposits from the general public.

The registered NGO-MFIs shall be required to forward periodic returns on their activities to the CBN.

NGO-MFIs that wish to obtain the operating licence of a microfinance bank shall be required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines.

9.4 **Transformation of the Existing NGO-MFIs:** Existing NGO-MFIs which intend to operate an MFB can either incorporate a subsidiary MFB while still carrying out its NGO operations or fully convert into an MFB.

NGO-MFIs that wish to convert fully into a microfinance bank must obtain an operating licence and shall be required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines.

10.0 JUSTIFICATION FOR THE CAPITAL REQUIREMENTS

10.1 The present capital base of ₦5 million for community banks has become too low for effective financial intermediation. Indeed, to set up a community bank, at least ₦5 million is required for the basic infrastructure, leaving zero or a negative balance for banking operations. From a survey of community banks, an operating fund of ₦50 million is about the minimum capital (own capital and deposits) a community bank needs to provide effective banking services to its clients. However, it is recognized that since many community banks are based in rural areas, their promoters may not be able to effectively raise ₦50 million as shareholders' funds. Hence, the stipulation of ₦20 million as shareholders' funds for the unit microfinance banks. The banks are expected to engage in aggressive mobilization of savings from micro-depositors to shore up their operating funds.

10.2 A State coverage microfinance bank that would operate multiple branches would be expected to take off with funds sufficient to operate a full branch in at least two-thirds of the Local Government Areas in that State. Hence, a minimum paid-up capital of N1.0 billion shall be required to obtain the licence to operate a State coverage MFB. Expansion to another State shall be subject to the provision of ₦1.0 billion minimum shareholders' funds unimpaired by losses, *and* after opening branches in at least two-thirds of the Local Government Areas of the State it is currently licensed to operate in, *and* if in the view of the regulatory authorities, it has satisfied all the requirements stipulated in the guidelines.

10.3 The experience of other countries sheds light on the level of capitalization required for microfinance banks. In most countries, the level of capitalization depends on the geographical coverage of the banks, and for some countries, even for a particular scope of coverage (district or province), the population and volume of business of the area further determine the level of capitalization. The capitalization requirements in other countries were also considered in arriving at the capitalization levels for the two categories of MFBs in this policy.

11.0 FRAMEWORK FOR THE SUPERVISION OF MICROFINANCE BANKS

11.1 Licensing and Supervision of Microfinance Banks

The licensing of microfinance banks shall be the responsibility of the Central Bank of Nigeria. A licensed institution shall be required to add "microfinance bank"; after its name. All such names shall be registered with the Corporate Affairs Commission (CAC), in compliance with the *Companies and Allied Matters Act (CAMA) 1990*.

11.2 Establishment of a National Microfinance Consultative Committee

A National Microfinance Consultative Committee (NMFCC) shall be constituted by the Central Bank of Nigeria (CBN) to give direction for the implementation and monitoring of this policy. Membership of the Committee shall be determined from time to time by the CBN. The Microfinance Support Unit of the CBN shall serve as the Secretariat to the Committee.

11.3 Credit Reference Bureau

Due to the peculiar characteristics of microfinance practice, a credit reference bureau, which shall provide information on microfinance clients and aid decision making, is desirable. In this regard, the present Credit Risk Management System in the CBN shall be expanded to serve the needs of the microfinance sector.

11.4 Rating Agency

The CBN shall encourage the establishment of private rating agencies for the sub-sector to rate microfinance institutions, especially those NGO-MFIs which intend to transform to microfinance banks.

11.5 Deposit Insurance Scheme

Since MFBs are deposit-taking institutions and in order to reinforce public confidence in them, MFBs shall qualify for the deposit insurance scheme of the Nigeria Deposit Insurance Corporation (NDIC).

11.6 Management Certification Process

In order to bridge the technical skills gap, especially among operators of microfinance banks, the policy recognizes the need to set up an appropriate capacity building programme for MFBs. To this end, the CBN shall put in place a microfinance bank management certification process to enhance the acquisition of appropriate microfinance operational skills of the management team of MFBs. A transition period of twenty four (24) months shall be allowed for the take-off of the programme, with effect from the date of launching the policy.

11.7 Apex Associations of Microfinance Institutions

The establishment of an apex association of microfinance institutions to promote uniform standards, transparency, good corporate practices and full disclosures in the conduct of MFI businesses shall be encouraged.

11.8 Linkage Programme

The policy recognizes the importance of the provision of wholesale funds for microfinance banks to expand their outreach. Pursuant to this, the CBN shall work out the modalities for fostering linkages between universal/ development banks, specialized finance institutions and the microfinance banks to enable the latter source for wholesale funds and refinancing facilities for on-lending to their clients.

11.9 Establishment of a Microfinance Development Fund

In order to promote the development of the sub-sector and provide for the wholesale funding requirements of microfinance banks, a Micro Finance Sector Development Fund shall be set up. The Fund shall provide necessary support for the development of the sub-sector in terms of refinancing facility, capacity building, and other promotional activities. The Fund would be sourced from governments and through soft facilities from the international development financing institutions, as well as multilateral and bilateral development Institutions.

11.10 Prudential Requirements

The CBN recognizes the peculiarities of microfinance practice and shall accordingly put in place appropriate regulatory and prudential requirements to guide the operations and activities of the microfinance banks.

11.11 Disclosure of Sources of Funds

Licensed MFBs shall be required to disclose their sources of funds, in compliance with the *Money Laundering Prohibition Act 2004*.

11.12 Corporate Governance for Microfinance Banks

The board of directors of MFBs shall be primarily responsible for the corporate governance of the microfinance banks. To ensure good governance of the banks, the board of directors shall be responsible for establishing strategic objectives, policies and procedures that would guide and direct the activities of the banks and the means to attain same, as well as the mechanism for monitoring Management's performance. Thus, while management of the day-to-day affairs of the banks shall be the responsibility of the Management team, the board of directors shall, however, be responsible for monitoring and overseeing Management's actions. Consequently, the licensed microfinance banks shall be expected to operate under a diversified and professional board of directors.

12.0 REGULATORY INCENTIVES

12.1 The new window of opportunity for the emerging microfinance banks in bringing financial services to people who never had access to such services before, would require the support of government and those of regulatory authorities. The CBN shall collaborate with the appropriate fiscal authorities in providing a favourable tax treatment of MFBs' financial transactions, such as exemption from value added tax (VAT) on lending, or tax on interest income or revenue.

12.2 Similarly, the principle of exemption from profit tax shall be applied to any MFB that does not distribute its net surplus but ploughs it back and reinvests the surplus to finance more economically beneficial micro, small and medium entrepreneurship.

12.3 Furthermore, a Rediscounting and Refinancing Facility (RRF) shall be made available to MFBs for purposes of providing liquidity assistance to support and promote microfinance programmes. This would enable MFBs that have met the CBN prudential requirements to, on a sustainable basis, provide and render micro credits and other services to their clients.

13.0 THE ROLES AND RESPONSIBILITIES OF STAKEHOLDERS

The roles and responsibilities of stakeholders shall include the following:

13.1 Government

Government shall be responsible for:

(i) Ensuring a stable macro-economic environment, providing basic infrastructures (electricity, water, roads, telecommunications, etc), political and social stability;

(ii) Fostering adequate land titling and other property rights sufficient to serve the collateral needs of borrowers and financial institutions;

(iii) Instituting and enforcing donor and foreign aid guidelines on micro-finance to streamline their activities in line with this policy; and

(iv) Setting aside an amount of not less than 1% of the annual budgets of state governments for on-lending activities of microfinance banks in favour of their residents.

13.2 Central Bank of Nigeria (CBN)

The roles of the CBN shall include the following:

(i) Establishing a National Microfinance Consultative Committee;

(ii) Evolving a clear micro-finance policy that spells out eligibility and licensing criteria, provides operational/prudential standards and guidelines to all stakeholders;

(iii) Evolving a microfinance sub-sector and institutional policies aimed at providing regulatory harmony, promoting healthy competition and mainstreaming microfinancing with formal intermediation;

(iv) Adopting an appropriate regulatory and supervisory framework;

(v) Minimizing regulatory arbitrage through periodic reviews of the policy and guidelines;

(vi) Promoting linkage programmes between universal/development banks, specialized finance institutions and the microfinance banks;

(vii) Continuously advocating market-determined interest rates for government-owned institutions and promote the channelling of government microfinance funds through MFBs; and

(viii) Implementing appropriate training programmes for regulators, promoters and practitioners in the sub-sector, in collaboration with stakeholders.

13.3 MicroFinance Institutions (MFIs)

Microfinance service providers shall:

(i) Provide efficient and effective financial services, such as credit, deposits, commodity/inventory collateralization, leasing, and innovative transfer/payment services;

(ii) Undertake appropriate recruitment and retention of qualified professionals through transparent and competitive processes;

(iii) Adopt continuous training and capacity building programmes to improve the skills of staff; and

(iv) Strictly observe their fiduciary responsibility, remain transparent and accountable in protecting savers' deposits.

13.4 Public Sector Poverty Alleviation Agencies

The MFB policy recognizes the roles of public sector MFIs and poverty alleviation agencies such as the National Poverty Eradication Programme (NAPEP) in the development of the sub-sector. They shall be encouraged to perform the following functions:

i. Provision of resources targetted at difficult-to-reach clients and the poorest of the poor;
ii. Capacity building;
iii. Development of MFIs' activities nation-wide;
iv. Nurturing of new MFIs to a sustainable level; and
v. Collaborating/partnering with other relevant stakeholders.

13.5 Donor Agencies

Donor agencies offer free or subsidized funds, donations or technical assistance for the development of the microfinance industry in Nigeria. They include bilateral and multilateral institutions, NGOs and missionaries with a pro-poor orientation. The services provided by donor agencies include grants, donations, technical assistance, etc.

The donor agencies, in conducting their microfinance activities, shall comply with the relevant provisions of this policy. The target clients for donors' support may include: MFIs, NGOs, regulators and other relevant agencies. However, for the purpose of leveraging the evolving micro financing initiative, donors are expected to direct most of their assistance to licensed MFBs to ensure an orderly resource injection, transparency and synergy.

14.0 CONCLUSION

14.1 There exists a huge untapped potential for financial intermediation at the micro and rural levels of the Nigerian economy. Attempts by Government in the past to fill this gap, through supply-driven creation of financing institutions and instruments, have failed, due to the poor capitalization of such schemes and restrictive regulatory and supervisory procedures, among other factors. The community banks were designed to fill the gap, but their low capital base and isolated mode of operation have not enabled them to make meaningful contributions to microfinancing.

14.2 The microfinance banks being established in line with this policy framework shall be adequately capitalized, appropriately regulated and supervised to address the need of financing at the micro levels of the economy. The two categories of microfinance banks shall be Microfinance Banks licensed to operate unit banks (a.k.a. community banks) and Microfinance Banks licensed to operate in a State.

14.3 Microfinance Banks licensed to operate unit banks shall require a minimum paid-up capital of ₦20 million and shall operate branches and/or cash centres. A Microfinance Banks licensed to operate in a State shall require a minimum paid-up capital of ₦1.0 billion and shall operate multiple branches within a State, subject to satisfactory prudential requirements and availability of free funds for branch expansion.

14.4 The existing community banks shall transform to Microfinance Banks within 24 months of approval of this policy, by increasing their shareholders' funds unimpaired by losses to a minimum of ₦20.0 million. Any community bank which does not meet the new capital requirement within the stipulated period shall cease to operate as a community bank.

14.5 The Central Bank of Nigeria shall supervise and regulate the microfinance banks. The Nigeria Deposit Insurance Corporation shall insure the deposits of microfinance banks.

14.6 The provisions of this policy shall be subject to review from time to time at the full discretion of the regulatory authorities.

ANNEX I

Distinguishing Features between a Microfinance Banks and Universal Banks

	Criteria	Microfinance Banks Licensed to Operate in as a unit bank in a LGA (a.k.a. Community Banks)	Microfinance Banks Licensed to Operate in a State	Universal Banks
A	Minimum paid-up capital/shareholders' funds	₦20.0 million (increased from ₦5.0 million)	₦1.0 billion	₦25.0 billion
B	Scope of Activities covered by Licence	To operate within a Local Government Area. Not to engage in sophisticated banking services, such as forex business	To operate within a State Not to engage in sophisticated banking services, such as forex business but can receive tenured loans and equity from abroad	To operate nationally and in international markets To operate forex transactions and domiciliary Accounts for customers
C	Limitation on credit to an individual or company	Credit subject to a single obligor limit of 1% for an individual/corporate entity and 5% for a group	Credit subject to single obligor limit of 1% for an individual/corporate entity and 5% for a group	Single obligor limit applies

D	Limitations on deposits from an individual or a company	No limit	No limit	No limit
	Criteria	LGA Microfinance (a.k.a. Community Banks)	State Microfinance Banks	Universal Banks
E	Access to public sector deposits	Permitted for only micro-credit programmes on a non-recourse basis and for payment purposes	Permitted for only micro-credit programmes on a non-recourse basis and for payment purposes	Permitted
F	Cheque writing accounts	Cheque issuing customized to the correspondence bank	Cheque issuing customized to the correspondence bank	Cheque issuing permitted
G	*Geographical coverage	In rural and urban areas	Must operate in both rural and urban areas within a State in a proportion prescribed by the CBN	All parts of Nigeria and foreign branches and subsidiaries

* The Central Bank of Nigeria (CBN) shall define the rural/urban areas for the purpose of this Policy.