CENTRAL BANK OF NIGERIA

Revised Microfinance Policy Framework For Nigeria

The Board of Directors (BOD) of the Bank at its 402nd Meeting held on Friday, 29th April, 2011 considered AND APPROVED the revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria.

The Microfinance Policy, Supervisory and Regulatory Framework for Nigeria was first launched in December 2005. Five years after the launch, some issues have emerged in the course of its implementation necessitating a review of the policy framework.

The review of the policy is in exercise of the powers conferred on the CBN by the provisions of Section 33 (1) (b) of the *CBN Act No. 7 of 2007* and Sections 56-60 (a) of the *Banks and Other Financial Institutions Act [BOFIA] NO 25 of 1991* [as amended).

In carrying out the review, the Bank sent request for inputs to about 900 key stakeholders in the microfinance sub-sector. The stakeholders comprised: Microfinance Banks (MFBs), Deposit Money Banks (DMBs), Others; including: Federal, States and Local Government Agencies, Development Partners and Non-Governmental Agencies etc.

FIRST: DECEMBER 2005; REVISED – APRIL 29, 2011

TABLE OF CONTENTS

LIST OF ACRONYMS..3

1.0 INTRODUCTION...4

2.0 OVERVIEW OF MICROFINANCE ACTIVITIES IN RECENT YEAR 6

3.0 JUSTIFICATION FOR MICROFINANCE POLICY 7

3.1 Weak Institutional and Network Capacity....................................7
3.2 Weak Capital Base 7
3.3 The Existence of a Huge Un-Served Market................................7
3.4 Poor Banking Culture and Low level of Financial Literacy 8
3.5 Economic Empowerment of the Poor 9
3.6 The Need for Increased Savings Opportunity 8
3.7 The Increasing Interest of Local and International Investors in Microfinance...9
3.8 Urban Bias in Commercial Banking Services............................10

4.0 THE MICROFINANCE POLICY..9

4.2 Policy Targets 9
4.3 Policy Strategies..11
4.3.1 Licensing and Supervision..12
4.3.2 Continuous Professional Development 12
4.3.3 Savings Mobilisation...12
4.3.4 Government Participation 12
4.3.5 NGO-based Microfinance Institutions 12
4.3.6 Collaboration with Development Partners..........................12
4.3.7 Definition of Stakeholders' Role..12
4.3.8 Submission of Disaggregated Data 13
4.3.9 Institutional Linkages……………………………………….12
4.4 Microfinance Policy Measures..13
4.4.1 Microfinance Bank Categorization 13
4.4.2 Ownership of Microfinance Banks 14

5.0 PARTICIPATION OF EXISTING FINANCIAL INSTITUTIONS IN MICROFINANCE ACTIVITIES... 14

5.1 Deposit Money Banks:...14
5.2 Non-Governmental Organization - Micro Finance Institutions (NGO-MFIs): 15

5.3 Apex Association of Microfinance Institutions/Banks:..................15

6.0 FRAMEWORK FOR THE SUPERVISION OF MICROFINANCE SUB-SECTOR...15

6.1 Licensing and Supervision of Microfinance Banks 15
6.2 Revised Regulatory and Supervisory Guidelines for Microfinance .. Banks 16
6.3 Minimum Operational Standards/Template for Microfinance . Banks in Nigeria...16
6.4 Establishment of a National Microfinance Policy Consultative Committee...16
6.5 Credit Reference Bureau 16
6.6 Rating Agency...16
6.7 Deposit Insurance Scheme 16
6.8 Capacity Building Programme 16
6.8.1 Microfinance Certification Programme………………………….. 16
6.8.2 Staff Development Programme………………………………. 16
6.8.3 Microfinance Development Fund and Capacity Building……… 16
6.8.4 Apex Association and Capacity Building……………………….. 16
6.9 Linkage Programme 17
6.10 Establishment of Microfinance Development Fund (MDF)...........18
6.11 Prudential Requirements 18
6.12 Disclosure of Sources of Funds 18
6.13 Corporate Governance for Microfinance Institutions....................18
6.14 Apex Association of Microfinance Institutions/Banks 17

7.0 REGULATORY INCENTIVES FOR MFBS................................18

8.0 THE ROLES AND RESPONSIBILITIES OF STAKEHOLDERS ..19

8.1 Government 19
8.2 Central Bank of Nigeria (CBN) 20
8.3 Apex Association of Microfinance Institutions/Banks...................20
8.4 Public Sector Poverty Alleviation Agencies.................................21
8.5 Donor Agencies and Development Partners 21

9.0 CONCLUSION 21

LIST OF ACRONYMS

ACGS	Agricultural Credit Guarantee Scheme
BOA	Bank of Agriculture
BOFIA	Banks and Other Financial Institutions Act
BOI	Bank of Industry
CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters Act
CBN	Central Bank of Nigeria
CBs	Community Banks
CSOs	Civil Society Organisations
DFIs	Development Finance Institutions
DMB	Deposit Money Bank
EFInA	Enhanced Financial Innovation and Access
FCT	Federal Capital Territory
FIRS	Federal Internal Revenue Service
FEAP	Family Economic Advancement Programme
GDP	Gross Domestic Product
IDP	Interest Drawback Programme
IT	Information Technology
LGA	Local Government Area
MCPE	Mandatory Continuing Professional Education
MDAs	Ministries, Departments and Agencies
MDF	Microfinance Development Fund
MFB	Microfinance Bank
MFIs	Microfinance Institutions
MFP	Microfinance Certification Programme
MSMEs	Micro, Small and Medium Enterprises
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
NGO-MFIs	Non-Governmental Organization-Microfinance Institutions
NMFPCC	National Microfinance Policy 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
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria

1.0 INTRODUCTION

1.1 In December 2005, the Central Bank of Nigeria (CBN) introduced a Microfinance Policy Framework to enhance the access of micro-entrepreneurs to financial services required to boost, expand and/or modernize their operations and contribute to rapid national economic growth. The rationale was that no robust, people-based growth can be achieved without increasing the access of this category of entrepreneurs and the active poor to factors of production, especially financial services. The latent entrepreneurial capacity of the poor, it was believed, 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 The basis for the bold initiative in 2005 is still valid. With the benefit of experience from five years of operating the Microfinance Policy, the CBN believes that a review of the Policy to reflect lessons of experience, present global economic trends and the envisioned future for small business development in Nigeria is now auspicious.

1.3 Microfinance services refer to loans, deposits, insurance, fund transfer services and other ancillary non-financial products targeted at low-income clients. Three features distinguish microfinance from other formal financial products: (i) smallness of loans and savings, (ii) absence or reduced emphasis on collateral, and (iii) simplicity of operations.

1.4 Before the emergence of Microfinance Banks (MFBs) under the Microfinance Policy, the people that were unserved or under-served by formal financial institutions usually found succour in non-governmental organization-microfinance institutions (NGO-MFIs), moneylenders, friends, relatives, credit unions, etc. These informal sources of funds have helped to partially fill a critical void, in spite of the fact that their activities were neither regulated nor supervised by the CBN. This revised policy framework continues to take cognisance of this category of institutions, which have now become key players in the Nigerian microfinance landscape, but more emphasis is placed on MFBs because they are under the regulatory and supervisory purview of the CBN.

1.5 The envisioned microfinance sub-sector under the policy regime takes cognisance of the existence of informal institutions and provides for their mainstreaming into the national financial system. The policy also seeks to harmonize operating standards and provide a strategic platform for the evolution of microfinance institutions particularly MFBs. Existing non-deposit taking service providers, which continue to operate outside the purview of regulation and supervision, will be encouraged to make periodic returns on their operations to the CBN, for statistical purposes only.

1.6 This document therefore, presents a revised National Microfinance Policy Framework for Nigeria that will enhance the provision of diversified microfinance services on a long-term, sustainable basis for the economically active poor and low income groups. It also provides appropriate machinery for tracking the activities of development partners and other non-bank service providers in the microfinance sub-sector of the Nigerian economy.

1.7 This revised policy is prepared in exercise of the powers conferred on the CBN by the provisions of Section 33 (1) (b) of the *CBN Act No. 7 of 2007* and in pursuance of the provisions of Sections 56-60 (a) of the *Banks and Other Financial Institutions Act [BOFIA] No. 25 of 1991* [as amended]. It should be read in conjunction with the MFB Operating Template and the revised Regulatory and Supervisory Guidelines for Microfinance Banks (MFBs) in Nigeria.

2.0 OVERVIEW OF MICROFINANCE ACTIVITIES IN RECENT YEARS

2.1 The microfinance industry in Nigeria had been confronted by numerous challenges since the launch of the Microfinance Policy Framework in December, 2005. Coming on the heels of the banking sector consolidation, many of those adversely affected found their ways into microfinance. Thus, a significant number of the newly licensed MFBs were established or operated like 'mini-commercial banks'. Also, the erstwhile community banks (CBs) that converted to MFBs did not fare any better.

2.2 An assessment of the microfinance sub-sector, following the launching of the policy however revealed some improvements. These include heightened awareness among stakeholders such as government, regulatory authorities, investors, development partners, financial institutions and technical assistance providers on microfinance. Specifically, a total of 866 microfinance banks have been licensed, Microfinance Certification Programe (MCP) for operators of microfinance banks put in place and the promotional machinery beefed up. Accordingly, entrepreneurs are taking advantage of the opportunities offered by increasingly demanding for financial services such as credit, savings, financial advice and payment services.

2.3 Despite the above development, a large percentage of Nigerians are still excluded from financial services. A study carried out by Enhancing Financial Innovation and Access (EFInA) in August, 2010 revealed that 39.2 million representing 46.3 percent of the adults in Nigeria, were excluded from financial services. Among the 53.7 percent that had access, 36.3 percent derive their financial services from the formal financial institutions, while 17.4 percent exclusively patronized the informal sector. Also, the results of the survey revealed that Nigeria was lagging behind South Africa, Botswana and Kenya with 26 percent, 33 percent and 32.7 percent financial exclusion rate, respectively.

2.4 Several factors have accounted for the persisting gap in access to financial services. For instance, the distribution of microfinance banks in Nigeria is lopsided, as many of the banks are concentrated in a particular section of the country. Most of the rural areas are yet to be covered as investors perceive very low business volume and profitability in those areas. Also, many of the banks carried over the inefficiencies and challenges faced during the community banking era. Furthermore, the general dearth of microfinance knowledge and skills affected the performance of the MFBs. Lastly, there are still inadequate funds for intermediation owing to lack of aggressive savings mobilization, inability to attract commercial capital, and the non establishment of the Microfinance Development Funds.

2.5 In order to redress this unintended development, the Bank commenced from December 2007, a programme of capacity building and sensitization/awareness on the appropriate model for microfinance banking. Maiden, Routine and Target Examinations, as well as nurturing and mentoring of the MFBs were also embarked upon to inculcate the microfinance concept and assist them to stabilize.

2.6 The impact of the global financial crisis of 2007/2008 on MFBs was more severe than anticipated. Credit lines dried up, competition became more intense and credit risk increased to the extent that many clients of MFBs were unable to pay back their loans owing to the hostile economic environment.

2.7 The banking sector reform of 2009 has also not left the MFBs unscathed as many of them experienced panic withdrawals by clients who were under the notion that if the Deposit Money Banks (DMBs) could fail, or have challenges, the MFBs would fare no better. The run on some of the MFBs was so severe that they had to close shop.

2.8 The combination of these factors significantly weakened the microfinance sub-sector and its ability to achieve its objectives. It is against this background that the 2005 Microfinance Policy was reviewed.

3.0 JUSTIFICATION FOR MICROFINANCE POLICY

The justifications for the inauguration of the Microfinance Policy are as follows:

3.1 Weak Institutional and Network Capacity

The prolonged sub-optimal performance of many erstwhile 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. The absence of a network platform which could help providers improve in areas such as information technology (IT), audit, product development and marketing constitute another major developmental constraint.

3.2 Weak Capital Base

The weak capital base of existing microfinance institutions could not adequately provide a cushion for the risk of lending to micro enterprises.

3.3 The Existence of a Huge Un-Served Market

The size of the un-served market by the existing financial institutions is large. According to the EFInA Access to Finance Survey in Nigeria in 2008, 79 per cent of the total population and 86 per cent of the rural population is unbanked. Also in 2005, the aggregate microcredit facilities in Nigeria accounted for about 0.2 per cent of Gross Domestic Product (GDP) and less than one per cent of total credit to the economy. This revealed the existence of a huge gap in the provision of financial services to a large number of the active poor and low income groups. The effect of not addressing this situation appropriately would further accentuate poverty and slow down growth and development.

3.4 Poor Banking Culture and Low level of Financial Literacy

The primary target of the microfinance initiative include people who have never had any banking relationship in their lives, either due to poor financial literacy, remoteness from bank locations, or complete ignorance of what banking entails. Most of these people equate microfinance with micro-credit, seeing banks and other fund providers not as partners in business but mere sources of loans and advances.

3.5 Economic Empowerment of the Poor

Globally, micro, small and medium enterprises (MSMEs) are known to contribute to poverty alleviation through their employment generating potentials. As people become gainfully employed, they are able to earn some income from which basic needs of life are met. In Nigeria, however, the employment generation potentials of small businesses have been seriously constrained by lack of access to finance, either to start, expand or re-engineer their present scope of economic activities in order to generate employment. Delivering on employment generation and poverty alleviation by MSMEs as stipulated in the National Economic Empowerment and Development Strategy (NEEDS) would require additional channels for financial services, which an improved Microfinance framework should provide. It should also assist the MSMEs in raising their productivity, capacity utilisation and contribution to aggregate national economic output.

3.6 The Need for Increased Savings Opportunity

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 savings are risky, low in terms of returns and undermine the aggregate volume of resources that could be mobilized and channelled to deficit areas of the economy. The microfinance policy provides the needed window of opportunity and promotes 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.

3.7 The Increasing Interest of Local and International Investors in Microfinance

Many local and international investors have expressed interest in investing in the country's microfinance sector. Thus, the establishment of a Microfinance Policy Framework for Nigeria provides an opportunity for them to participate in financing the economic activities of low income groups and the poor.

3.8 Urban Bias in Banking Services

Most of the existing banks are located in urban centres, and several attempts in the past at encouraging them to open branches in the rural areas did not produce the desired results. With a high proportion of the Nigerian population still living in the rural areas, it has become absolutely imperative to develop an institutional framework to reach the hitherto unserved population with banking services.

4.0 THE MICROFINANCE POLICY

4.1 Policy Objectives

The Microfinance policy provides a platform to achieve the following specific objectives:

i. Provision of diversified, affordable and dependable financial services to the economically active poor, which otherwise would have been excluded, in a timely and competitive manner, to enable them undertake and develop long-term, sustainable entrepreneurial activities;

ii. Creation of employment opportunities and increase in the productivity of the active poor in the country, thereby enhancing their individual household income and uplifting their standard of living;

iii. Promotion of synergy and mainstreaming of the informal Microfinance sub-sector into the formal financial system, thereby ensuring effective, systematic and focused participation of the poor in socio-economic development and resource allocation;

iv. Enhancement of service delivery by all microfinance institutions to MSMEs and rendering of specialised services such as payment of salaries, gratuities, and pensions by those licensed by the CBN;

v. Mobilisation of savings for intermediation and contribution to rural transformation;

vi. Promotion of linkage programmes between MFIs on one hand, and DMBs, DFIs and specialized funding institutions on the other;

vii. Provision of sustainable avenues for the administration of the microcredit programmes of government and high net worth individuals on a non-recourse basis; and

viii. Promotion of an enabling platform for microfinance service providers to network and exchange views and experiences on their products and processes.

4.2 Policy Targets

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

i. To increase access of the economically active poor in Nigeria to financial services by 10 per cent annually, thereby creating millions of jobs and reducing poverty;

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

iii. To ensure the participation of all States and the FCT as well as at least two-thirds of all the Local Government Areas (LGAs) in microfinance activities by 2015; and

iv. To eliminate gender disparity by ensuring that women's access to financial services increase by 15 per cent annually, that is 5 per cent above the stipulated minimum of 10 per cent across the board.

4.3 Policy Strategies

A number of strategies were derived from the stated objectives and targets. They include:

4.3.1 *Licensing and Supervision*

The Bank shall license, regulate and supervise the activities of microfinance service providers that wish to become MFBs. In the light of lessons of experience from the system thus far, the Bank shall ensure that all such licensed MFBs are adequately capitalised and operated in a safe and sound manner.

4.3.2 *Continuous Professional Development*

Professionalism, transparency and good governance shall be the bedrock of the microfinance sub-sector. Therefore, efforts shall be made to strengthen the skills of regulators, operators and directors of microfinance institutions. The establishment of institutions that support the development and growth of microfinance service providers and clients will be supported.

4.3.3 *Savings Mobilisation*

Attention will be paid to the promotion of savings and banking culture among low-income groups, through Financial Literacy and Consumer Protection Programmes.

4.3.4 *Government Participation*

The participation of Federal, State and Local Governments in the system shall be promoted. This is by encouraging, through a combination of moral suasion, advocacy and enlightenment, the three-tier of government to devote at least one (1) per cent of their annual budgets to microcredit initiatives, to be administered largely through MFBs.

4.3.5 *NGO-based Microfinance Institutions*

Non-deposit taking microfinance institutions shall continue their support to micro-enterprises and will be encouraged to render regular returns on their operations to the Bank primarily for statistical purposes. Those that attain the minimum regulatory capital requirements shall be encouraged and incentivised to transform to licensed MFBs.

4.3.6 *Collaboration with Development Partners*

There shall be collaboration and close monitoring of donors' assistance, in the area of microfinance, in line with the provisions of this policy.

4.3.7 *Definition of Stakeholders' Role*

The roles of stakeholders' in the development of the microfinance sub-sector are clearly defined in Section 8 of the Policy, and efforts towards proper harmonization of these roles would be ensured.

4.3.8 Submission of Disaggregated Data

MFBs will be required to include in their periodic returns disaggregated data on the uptake of their products and services as may be required.

4.3.9 Institutional Linkages

The linkages between DMBs, DFIs, NGO-MFIs, other micro-enterprise finance institutions as well as MFBs would be strengthened and institutionalized to increase the flow of funds to clients.

4.4 Microfinance Policy Measures

As stated in Section 4.3.9, this Policy document recognises that there are various players in the microfinance sub-sector of the Nigerian economy. However, for deposit-taking institutions, there are strict prudential and regulatory requirements that must be complied with in order to secure and retain banking licences for operation as MFBs. These requirements are as follows:

4.4.1 Microfinance Bank Categorization

Microfinance Banks shall be required to be adequately capitalized, technically sound, and oriented towards lending based on cash flow and the character of clients. There shall be three categories of Microfinance Banks (MFBs).

4.4.1.1 **Category 1**: Unit Microfinance Bank

A Unit Microfinance Bank is authorized to operate in one location. It shall be required to have a minimum paid up capital of N20 million (twenty million Naira) and is prohibited from having branches/cash centres.

4.4.1.2 **Category 2**: State Microfinance Bank

A State Microfinance Bank is authorized to operate in one State or the Federal Capital Territory (FCT). It shall be required to have a minimum paid up capital of N100 million (one hundred million Naira) and is allowed to open branches within the same State or the FCT, subject to prior written approval by the CBN for each new branch.

4.4.1.3 **<u>Category 3</u>:** National Microfinance Bank

A National Microfinance Bank is authorized to operate in more than one State including the FCT. It shall be required to have a minimum paid up capital of N2 billion (two billion Naira), and is allowed to open branches in all States of the Federation and the FCT, although, subject to prior written approval by the CBN.

4.4.1.4 **<u>Transformation Path</u>**

i. A Unit MFB that intends to transform to a State MFB shall be required to surrender its licence and obtain a State MFB licence, subject to fulfilling stipulated requirements.

ii. A State MFB that intends to transform to a National MFB must have at least 5 branches which are spread across the Local Government Areas in the State. This is to ensure that the MFB has gained experience necessary to manage a National MFB. It shall also be required to surrender its license and fulfill other stipulated requirements.

The prescribed minimum capital requirement for each Category of MFB may be reviewed from time to time by the Central Bank of Nigeria.

4.4.2 Ownership of Microfinance Banks

i. Microfinance Banks can be established by individuals, groups of individuals, community development associations, private corporate entities, NGO-MFIs, or foreign investors.

ii. No individual, group of individuals, their proxies or corporate entities, and/or their subsidiaries, shall own controlling interest in more than one MFB, except as approved by the Central Bank of Nigeria.

5.0 PARTICIPATION OF EXISTING FINANCIAL INSTITUTIONS IN MICROFINANCE ACTIVITIES

5.1 Deposit Money Banks:

Deposit Money Bank (DMB) wishing to engage in microfinance services can continue to do so through a designated Department/Unit and/or offer microfinance as a financial product. Nothing prevents the Holding Company having a DMB as a subsidiary from investing in or owning an MFB.

5.2 Non-Governmental Organization-Micro Finance Institutions (NGO-MFIs):

This policy recognizes the existence of credit-only, membership-based microfinance institutions, which are not required to come under the supervisory purview of the CBN. They are however supervised by the appropriate Ministry. Such institutions shall engage in the provision of microcredit to their targeted population but shall not mobilize deposits from the general public. The registered NGO-MFIs shall be required to forward periodic returns on their activities to the CBN primarily for statistical purposes. NGO-MFIs wishing to obtain operating licences as Microfinance Banks shall be required to meet the stipulated provisions in the Regulatory and Supervisory Guidelines for MFBs in Nigeria.

5.3 Apex Associations of Microfinance Institutions/Banks

The CBN shall support apex associations of microfinance institutions/banks to promote self-regulation, uniform standards, transparency and good corporate practices. The associations shall also serve as platform for capacity building, product development and marketing, as well as resource sharing.

Transformation of the Existing NGO-MFIs and Financial Cooperatives:

Existing NGO-MFI which intend to operate as MFB can either incorporate a subsidiary MFB while still carrying out its NGO operations or transform to a MFB. NGO-MFIs and financial cooperatives willing to transform to a Microfinance Bank must obtain an operating licence and shall be required to meet the stipulated provisions in the revised Regulatory and Supervisory Guidelines for MFBs.

6.0 FRAMEWORK FOR THE SUPERVISION OF MICROFINANCE SUB-SECTOR

6.1 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. The license issued by the CBN will indicate whether it is a Unit, State or National MFB.

6.2 Revised Regulatory and Supervisory Guidelines for Microfinance Banks

The Bank has produced a revised Regulatory and Supervisory Guidelines for the operations of Microfinance Banks in Nigeria. All operators and practitioners are expected to familiarize themselves with this document and comply with its provisions accordingly.

6.3 Minimum Operational Standards/Template for Microfinance Banks in Nigeria

The Bank has prepared a Template to guide the operators of the MFBs. This document provides guidance on corporate governance, business planning, products/services and risk management.

6.4 Establishment of the National Microfinance Policy Consultative Committee

The National Microfinance Policy Consultative Committee (NMFPCC) has been 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 Development Finance Department of the CBN shall serve as the Secretariat to the Committee.

6.5 Credit Reference Bureau

In view of the peculiarities of microfinance practice, operators shall be required to obtain credit information from Credit Reference Bureau(x) to aid decision making and minimise credit risk.

6.6 Rating Agency

The CBN shall encourage the establishment of private rating agencies for the sub-sector to rate microfinance institutions.

6.7 Deposit Insurance Scheme

As a measure to protect depositors' funds and reinforce public confidence, MFBs shall qualify for the deposit insurance scheme of the Nigeria Deposit Insurance Corporation (NDIC).

6.8 Capacity Building Programmes

6.8.1 Microfinance Certification Programme

In order to bridge the technical skills gap, especially among operators and the directors of MFBs, the policy recognizes the need to set up an appropriate capacity building programme. In this regard, the CBN has put in place the Microfinance Certification Programme (MCP) to ensure the acquisition of appropriate microfinance operational skills by staff and management of MFIs in general and MFBs in particular.

In addition, provisions shall be made for Mandatory Continuing Professional Education (MCPE) to update relevant skills of the staff of each MFB in microfinance banking.

6.8.2 Staff Development Programme

Each MFB shall be required to make annual budgetary provision for staff development and capacity building programmes.

6.8.3 Microfinance Development Fund and Capacity Building

The Microfinance Development Fund, when established, shall provide funds to support capacity building programme for the subsector on an on-going basis.

6.8.4 Apex Associations and Capacity Building

Efforts shall be made to promote capacity building through the apex associations of the microfinance institutions in collaboration with development partners.

6.9 Linkage Programme

The policy recognizes the importance of the provision of wholesale funds to microfinance institutions to enable them expand their outreach. Pursuant to this, the CBN shall work out the modalities for fostering linkages between DMBs/DFIs, specialized finance institutions, Donor Agencies and the MFIs in general and MFBs in particular, to enable the MFIs/MFBs source for wholesale funds and refinancing facilities for on-lending to their clients. Furthermore, MFBs and MFIs are charged, under this policy, to foster close linkages with micro-enterprises that operate as Self-Help Groups (SHGs).

6.10 Establishment of Microfinance Development Fund (MDF)

In order to promote the development of MSMEs generally, and micro-enterprises in particular, a Microfinance Development Fund (MDF) shall be set up, primarily to provide for the wholesale funding requirements of MFBs/MFIs. The Fund, which shall be professionally managed to guarantee its sustainability, will provide necessary support for the development of the sub-sector in terms of refinancing/guarantee facility, capacity building and financial education, and other promotional activities. The Fund would be sourced from governments and through soft facilities from international development financing institutions, as well as multilateral and bilateral institutions.

6.11 Prudential Requirements

The CBN recognizes the peculiarities of microfinance practice and shall accordingly implement appropriate regulatory and prudential regime to guide the operations and activities of the MFBs. Some of the prudential requirements are compulsory investment in treasury bills, liquidity ratio, capital adequacy ratio, fixed assets/long-term investments and branch expansion, maintenance of capital funds, limit of lending to a single borrower and related party, maximum equity investment holding ratio, provision for classified assets, and unsecured lending limits, amongst others. The details are contained in the revised Regulatory and Supervisory Guidelines for MFBs in Nigeria.

6.12 Disclosure of Sources of Funds

MFBs shall disclose their sources of funds in compliance with the Money Laundering Prohibition Act 2004.

6.13 Corporate Governance for Microfinance Institutions

All MFIs operating in Nigeria shall adhere to basic corporate governance principles. The Board of Directors of a MFB shall be primarily responsible for the corporate governance of the bank by establishing strategic objectives, policies and procedures that would guide and direct the activities and the means to attain same, as well as the mechanism for monitoring Management's compliance.

6.14 Apex Associations of Microfinance Institutions/Banks

The CBN shall support apex associations of microfinance institutions/banks to promote self-regulation, uniform standards, transparency and good corporate practices. The associations shall also serve as platform for capacity building, product development and marketing, as well as resource sharing.

7.0 REGULATORY INCENTIVES FOR MFBs

7.2 The new window of opportunity to bring financial services to the under-served and un-banked in the rural areas would require the support of government and the regulatory authorities.

7.3 Microfinance Development Fund will be established by the Government, CBN and other stakeholders to support the MFBs in rendering financial services to their clients on a sustainable basis. The Fund shall comprise two windows Commercial and Social.

7.4 Subsidized training/capacity building programmes would be made available for staff of the MFBs.

7.5 The Interest Drawback Programme (IDP) of the CBN would be extended to the MFBs clients in agricultural related businesses.

7.6 The CBN in collaboration with relevant Ministries, Departments and Agencies (MDAs) as well as other stakeholders would provide enabling environment for MFBs/MFIs to operate.

8.0 THE ROLES AND RESPONSIBILITIES OF STAKEHOLDERS

The roles and responsibilities of respective stakeholders shall include, but not limited to, the following:

8.1 Government

Government shall be responsible for:

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

ii. Creating an efficient land administration system to facilitate ease of transfer of land titles and other property rights to serve the collateral needs of borrowers and financial institutions;

iii. Promoting policy in support of consumer protection and financial literacy for microfinance clients;

iv. Setting aside an amount not less than one (1) per cent of the annual budgets of Federal, State and Local Governments for microcredit initiatives.

8.2 Central Bank of Nigeria (CBN)

The CBN shall:

i. Establish the National Microfinance Policy Consultative Committee;

ii. Develop a Microfinance Policy Framework with clearly stated objectives, targets and strategies;

iii. Ensure the emergence of a sustainable microfinance sub-sector through appropriate institutional and regulatory/ supervisory framework;

iv. Promote the development of wholesale funding to Microfinance Banks;

v. Develop and support appropriate capacity building programmes for regulators, directors/operators and practitioners in the sub-sector, in collaboration with other stakeholders;

vi. Promote financial literacy and consumer protection in partnership with relevant public and private sector MSME development institutions as well as Civil Society Organisations (CSOs); and

vii. Undertake periodic reviews of the Microfinance Policy and the Regulatory Guidelines to address emerging issues.

8.3 Apex Associations of Microfinance Institutions/Banks

The Apex Associations of MFIs/MFBs shall:

i. Promote self-regulation;

ii. Ensure uniform standards, transparency and good corporate practices in the conduct of microfinance business;

iii. Offer network platforms for peer comparison, capacity building, generic product development and marketing, as well as resource sharing;

iv. Ensure that members of the Association render returns on their operations to the CBN; and

v. Work with other stakeholders for the promotion of financial literacy and consumer protection.

8.4 Public Sector Poverty Alleviation Agencies

This Microfinance policy framework recognises the roles of public sector MFIs and poverty alleviation agencies such as the National Poverty Eradication Programme (NAPEP), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), National Directorate of Employment (NDE) etc. in the development of the sub-sector. They shall be encouraged to play the following roles:

i. Provision of non-commercial (social security) resources targeted at difficult-to-reach clients and the poorest of the poor;

ii. Capacity building;
iii. Nurturing of new MFIs to a sustainable level; and
iv. Collaborating/partnering with other relevant stakeholders.

8.5 Donor Agencies and Development Partners

Donor Agencies and Development Partners that provide capital and support for the development of the microfinance industry in Nigeria shall operate within the relevant provisions of this policy.

9.0 CONCLUSION

9.1 There exists a huge untapped potential for financial services at the micro level of the Nigerian economy. Attempts by Government in the past to fill this gap were not sustainable.

9.2 The Microfinance Policy was therefore developed in 2005 to further address the observed gaps, the policy focused mainly on a private sector driven arrangements, with the establishment of microfinance banks.

9.3 Developments in the microfinance sub-sector since 2005 are mixed. While outreach increased from 35 per cent to 53.7 per cent, occasioned by the coming on stream of MFBs, there was an observed mission drift from the stated objective. It is against this background, that the 2005 microfinance policy was revised to address this challenge.

9.4 Under the revised framework, MFBs shall be required, amongst others, to be adequately capitalized, better spread, run a low cost structure and be operated in a safe and sound manner.

9.5 The CBN shall continue to monitor and ensure a conducive policy environment for the conduct of microfinance activities/business in Nigeria.

29th April, 2011