CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

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CIRCULAR TO MICROFINANCE BANK STAKEHOLDERS AND THE GENERAL PUBLIC

EXPOSURE DRAFT OF THE GUIDELINES FOR THE REGULATION AND SUPERVISION OF MICROFINANCE BANKS IN NIGERIA

The Central Bank of Nigeria (CBN), in 2012, issued the Revised Supervisory and Regulatory Guidelines for Microfinance Banks in Nigeria to support the development and sustainability of Microfinance Banks (MFBs).

The need to reposition and strengthen MFB towards improved performance has become apparent as revealed from the report of a recent review of the subsector. Accordingly, the 2012 Guidelines have been reviewed to strengthen and complement other on-going reform in the MFB sub-sector. An exposure draft of the reviewed Guidelines is hereby issued for comments and observations. The document may be accessed from the Bank's website, **www.cbn.gov.ng**

Your comments to the Director, Financial Policy and Regulation Department, with soft copies mailed to **omikhiduanumhen@cbn.gov.ng** within three (3) weeks from the date of this letter, would be appreciated, please.

KEVIN AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

GUIDELINES
FOR THE REGULATION AND SUPERVISION
OF
MICROFINANCE BANKS

IN NIGERIA

JANUARY 2020

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These revised guidelines are issued by the Central Bank of Nigeria [hereinafter referred to as "the CBN" or "the Bank"] in exercise of the powers conferred on it by the Central Bank of Nigeria Act CAP C4 LFN 2010 and the Banks and Other Financial Institutions Act CAP B3 LFN 2010 [hereinafter referred to as "BOFIA"].

1.0 INTRODUCTION

The Microfinance Policy, Regulatory and Supervisory Framework was issued December 15, 2005 and revised in 2011 to, among others, increase financial inclusion rate in the country, improve access to financial services for the economically active poor, pursue poverty eradication as well as mainstream the informal microfinance sub-sector into the formal financial system. The policy established microfinance banks as the crucial vehicle for the attainment of these goals. Microfinance banks were expected to provide access to financial services such as micro-savings, micro-credits, transfer services and other financial products targeted at the economically active poor. These services have, over time, evolved to include the transmission of government's developmental initiatives.

The CBN, in 2013, issued the Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria, to address challenges observed in the implementation of the Microfinance Policy of 2005 and emerging developments in the industry. The Guidelines sought to promote rapid and sustainable growth of the microfinance industry, leveraging on global best practice in microfinance banking.

The current review seeks to engender strong and financially sustainable microfinance banks, enhance the safety and soundness of the microfinance sub-sector.

The Guidelines shall be read in conjunction with the provisions of the CBN Act, the BOFIA, other subsidiary legislations made under the Acts, as well as written directives, notices, circulars, frameworks and other guidelines that the CBN and other regulators in the financial services sector have issued or may issue from time to time.

The Guideline covers categories of microfinance banks, ownership and licensing requirements, permissible and prohibited activities, funding, corporate governance, prudential and anti-money laundering requirements, amongst others.

2.0 PERMISSIBLE AND NON-PERMISSIBLE ACTIVITIES

2.1 Permissible Activities

An MFB shall be allowed to engage in the provision of the following services to its clients:

a. Acceptance of various types of deposits including savings, time, target and demand deposits from individuals, groups and associations;

b. Provision of credit to its customers;

c. Provision of housing micro loans;

d. Provision of ancillary services such as capacity building on record keeping and small business management and safe custody ;

e. Issuance of debentures to interested parties to raise funds from members of the public with the prior approval of the CBN;

f. Collection of money or proceeds of banking instruments on behalf of its customers including clearing of cheques through correspondent banks;

g. Act as agent for the provision of mobile banking, micro insurance and any other services as may be determined by the CBN from time to time, within the geographic coverage of its licence;

h. Appoint agents to provide financial services on its behalf in line with the CBN Agent Banking Guidelines, within the geographic coverage of its licence;

i. Provision of payment services such as salary, gratuity, pension for employees of the various tiers of government;

j. Provision of loan disbursement services for the delivery of the credit programme of government, agencies, groups and individual for poverty alleviation on non-recourse basis;

k. Provision of banking services to its customers such as domestic remittance of funds;

l. Maintenance and operation of various types of account with other banks in Nigeria;

m. Investment of its surplus funds in suitable money market instruments approved by the CBN;

n. Operation of micro leasing facilities, microfinance related hire purchase and arrangement of consortium lending;

o. Participate in CBN Intervention Fund and funds other sources;

p. Provision of microfinance related guarantees for its customers;

q. Financing agricultural inputs, livestock, machinery and industrial raw materials to low- income persons;

r. Investment in cottage industries and income generating projects for low-income persons as may be prescribed by the CBN from time to time;

s. Provision of professional advice to low-income persons regarding investments in small businesses;

t. Issuance of domestic commercial paper subject to the approval of the CBN;

u. Provide financial and technical assistance and training to microenterprises; and

v. Any other permissible activity as may be approved by the CBN from time to time

2.2 Non-Permissible Activities

2.2.1 MFBs shall not engage in the provision of the following financial services:

a. Foreign currency transactions, except foreign currency borrowings;

b. International commercial papers;

c. International corporate finance;

d. International electronic funds transfer;

e. Clearing house activities;

f. Collection of third party cheques and other instruments for the purpose of clearing through correspondent banks;

g. Dealing in land for speculative purposes;

h. Dealing in real estate except for its use as office accommodation;

i. Provision of any facility for speculative purposes;

j. Leasing, renting, and sale/purchase of assets of any kind with related parties and/or significant shareholders (five per cent or more of the equity) of the MFB, without the prior written approval of the CBN;

k. Financing of any illegal activities; and

l. any activity other than those permitted as stated above or as may be prescribed by the Central Bank of Nigeria from time to time

3.0 CATEGORIES OF MICROFINANCE BANKS

There shall be four (4) categories of MFBs:

3.1 Tier 1 Unit MFB

A Unit Microfinance Bank with urban authorization (Tier 1) shall operate in the 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 Governments Areas, subject to the approval of the CBN.

3.2 Tier 2 Unit MFB

A Unit Microfinance Bank with rural authorization (Tier 2) shall operate only in the rural, unbanked or underbanked areas, and is allowed to open one branch outside the head office within the same Local Government Area subject to the approval of the CBN.

3.3 State Microfinance Bank

A State Microfinance Bank is authorized to operate in one State or the Federal Capital Territory (FCT). It is allowed to open branches within the same State or the FCT, subject to prior written approval of the CBN for each new branch or cash centre. It shall not be permitted to open more than two branches in the same Local Government Area (LGA) unless it has established at least one branch or cash centre in every LGA of the State.

A newly licensed State MFB shall not commence operations with more than ten (10) branches.

3.4 National Microfinance Bank

A National Microfinance Bank is authorized to operate in more than one State including the FCT. A newly licensed National MFB shall not commence operations with more than ten (10) branches.

4.0 OWNERSHIP AND LICENSING REQUIREMENTS

4.1 Ownership Requirements

4.1.1 A microfinance bank may be established by individuals, group of individuals, community development associations, private corporate entities and foreign investors subject to a maximum of 49% shareholding for individuals and aggregate related parties.

4.1.2 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 CBN.

4.1.3 A financial holding company that intends to set up any category of MFB as subsidiary shall be required to meet the prescribed capital and other requirements stipulated in these Guidelines.

4.1.4 Government's participation in the establishment of microfinance banks shall be structured according to the following models:

A. Fully Owned Government Microfinance Bank Model

In this model, the State or Local Government is allowed 100 per cent ownership of the equity of a MFB but shall progressively divest its interest to private investors within a maximum period of five (5) years. Two variants of the model are envisaged as follows:

(i) Government Fully Owned State Microfinance Bank:

A state or local government is allowed to establish a state microfinance bank, which may, subject to prior approval of the CBN, be allowed to have branches within the local government areas in the state to reach its target market.

(ii) Government Fully Owned Unit Microfinance Bank:

A state or local government is allowed to establish a Unit microfinance bank, which may, subject to prior approval of the CBN, be allowed to have not more than one branch within the same local government area.

B. Public-Private Partnership Model

Under this model, state or local governments will collaborate with private sector entities to set up MFBs but shall progressively divest interest within a maximum period of five (5) years. The management and governance of the MFB shall be private-sector led.

The maximum shareholding ratio for government shall be sixty (60) percent and the contribution of the public/government shall be valued at an agreed valuation model subject to CBN approval.

C. Government Sponsored Co-operative Model

In this Model, a State Government supports a cooperative society already operating in its area to set up a Unit MFB with the understanding that in the course of operations, members of the society, through personal savings or accumulated profits, will progressively repay the Government's investment and thus become full owners of the MFB within a maximum period of five (5) years.

The government and co-operative society shall have 75:25 shareholding ratio in this model. The MFB shall be professionally managed by the private sector and all facilities and infrastructure provided by the government shall be valued and capitalized.

4.1.5 Transformation Path

A. A Tier 2 Unit MFB may transform to a Tier 1 Unit MFB subject to fulfillment of the requirement for a Tier 1 Unit MFB Licence.

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

C. A State MFB that intends to transform to a National MFB must have at least five (5) branches which are spread across the Local Government Areas in the State of its original operation. It shall also be required to surrender its State MFB license and fulfill other stipulated requirements for a National MFB licence.

D. Without prejudice to the above transformation path, new promoter(s) may be allowed to apply directly for any category of MFB licence.

E. Application for an upgrade to Tier 1 Unit, State or National MFB shall be forwarded to the Director, FPRD, with the following supporting documents:

  i. Original MFB Licence
  ii. A copy of the Board's resolution authorizing the upgrade
  iii. Evidence showing that the new minimum capital requirement for the desired authorization license has been met.
  iv. Where there is an injection of capital, relevant documents shall be required.
  v. The proposed organizational structure.

vi. A copy of the audited financial statements for the immediate preceding financial year approved by the CBN.
vii. Any other document/ information as may be required from time to time by the CBN.

4.2 Licensing Requirements

Application for MFB licence shall be in three (3) stages, namely:

(I) Pre-licensing Presentation

(II) Approval-in-Principle

(III) Final License

4.2.1 Requirements for Pre-licensing Presentation

Promoters and investors shall be required to make pre-licensing presentation on the business case of the proposed MFBs to the CBN before a formal application for licence.

This provision is also applicable to investors acquiring an existing MFB.

4.2.2 Requirements for grant of Approval-In-Principle (AIP)

A) The promoters of MFBs shall be required to submit a formal application for the grant of licence addressed to the Governor of the Central Bank of Nigeria.

B) The application shall be accompanied with the following:

i. Evidence of payment of non-refundable application fee to the Central Bank of Nigeria;

ii. Evidence of capital contribution made by each shareholder;

iii. Evidence of minimum capital deposit in line with Section 4.2.7 of this Guidelines, to be verified by the CBN;

iv. Evidence of name reservation with the Corporate Affairs Commission (CAC);

v. Detailed business plan or feasibility report which shall, at a minimum, include:

a. Objectives of the Microfinance Bank;

b. Justification for the application;

c. Ownership structure in a tabular form indicating the name of proposed investor(s), profession/business and percentage shareholdings;

d. Sources of funding of the proposed equity contribution for each investor;

e. Where the source of funding the equity contribution is a loan, such shall be a long-term facility of at least 7-year tenor and shall not be taken from the Nigerian banking system;

f. Organizational structure, showing functional units, responsibilities, reporting relationships and grade of heads of departments/units;

g. Schedule of services to be rendered;

h. Five-year financial projection of the proposed bank indicating expected growth, profitability and the underlying assumptions; and

i. Details of information technology requirements and facilities.

C) For institutional investors, promoters shall forward the following additional documents:

i. Certificate of Incorporation and certified true copies of other incorporation documents.

ii. Board resolution supporting the company's decision to invest in the equity shares of the proposed bank;

iii. Names and addresses (business and residential) of owners, directors and their related companies, if any;

iv. Audited financial statements & reports of the company and Tax Clearance Certificate for the immediate past 3 years.

D) Draft copy of the company's Memorandum and Articles of Association (MEMART). At a minimum, the MEMART shall contain the following information:

i. Proposed name of the MFB

ii. Objects clause

iii. Subscribers to the MEMART

iv. Procedure for amendment

v. Procedure for share transfer/disposal

vi. Appointment of directors

E) A written and duly executed undertaking by the promoters that the bank will be adequately capitalized for the volume and character of its business at all times;

F) For regulated foreign institutional investors, an approval or a 'no objection letter' from the regulatory authority in the country of domicile;

G) Shareholders' agreement providing terms for disposal/transfer of shares as well as authorization, amendments, waivers, reimbursement of expenses;

H) Statement of intent to invest in the bank by each investor;

I) Technical Services Agreement, where applicable;

J) Detailed Manuals and Policies covering:

   i. Credit Policy Manual;
   ii. Internal Audit Manual;
   iii. Asset/Liability Management Policy (ALM Policy);
   iv. Accounting policies and principles;
   v. Roles and responsibilities of the senior management officials responsible for financial management;
   vi. Treasury operations, including funds management, vouchers, payroll and procurement;
   vii. Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) Policy;
   viii. Enterprise-Wide Risk Management Framework;
   ix. Whistle Blowing Policy;
   x. Code of Ethics and Business Conduct;

K) Bank Verification Number (BVN) and Tax Clearance Certificate of each member of the Board and significant shareholders.

L) Duly signed resume and valid means of identification for proposed shareholders of proposed MFB;

M) Criteria for selecting board members;

N) Board composition, directors' duly signed resumes and valid means of identification. The size and composition of the board shall comply with the provision of the CBN Code of Corporate Governance for MFBs;

O) Consolidated statement of account showing the capital contribution for all shareholders;

P) Completed Fitness and Propriety Questionnaire; and sworn declaration of net worth executed by the proposed shareholders, directors and management personnel;

Q) Any other information that the CBN may require from time to time.

Following the receipt of an application, the CBN shall communicate its decision to the applicant within 90 days. Where the CBN is satisfied with the application, it shall issue an Approval-in-Principle (AIP) to the applicant

The proposed bank shall not incorporate/register its name with the CAC until an AIP has been obtained from the CBN in writing, a copy of which shall be presented to the Corporate Affairs Commission (CAC) for registration.

4.2.3 Requirements for Granting of Final License

Not later than six (6) months after obtaining the AIP, the promoters of a proposed Microfinance Bank shall submit an application for the grant of a final licence to the CBN, addressed to the Governor of the Central Bank of Nigeria. The application shall be accompanied by the following:

i. Evidence of payment of non-refundable licensing fee to the Central Bank of Nigeria;

ii. Certified true copy (CTC) of Certificate of Incorporation of the bank;

iii. CTC of MEMART;

iv. CTC of Form CAC 1.1 (Application for Registration of Companies);

v. Evidence of location of Head Office (rented or owned) for the take-off of the business;

vi. Schedule of changes, if any, in the Board, Management and Shareholding after the grant of AIP;

vii. Evidence of ability to meet technical requirements and modern infrastructural facilities such as office equipment, computers, telecommunications, to perform the bank's operations and meet CBN and other regulatory requirements;

viii. Copies of letters of offer and acceptance of employment in respect of the management team;

ix. List of proposed top management staff and duly signed resume stating their qualification (including photocopies of academic and professional credentials), experience, records of accomplishments and valid means of identification;

x. Comprehensive plan on the commencement of the bank's operations with milestones and timelines for roll-out of key payment channels; and

xi. Board and staff training programme.

4.2.4 Conduct of Pre-Licencing Inspection

As a requirement to the grant of final licence, the CBN shall conduct an inspection of the premises and facilities of the proposed bank to, amongst others:

a. Check the physical structure of the office building and infrastructure provided for take-off of the MFB;

b. Sight the original copies of the documents submitted in support of the application for license;

c. Meet with the Board and Management team whose resumes had earlier been submitted to the CBN;

d. Verify the capital contributions of the promoters; and

e. Verify the integration of its infrastructure with the National Payments System.

4.2.5 Requirements for commencement of operations

The bank shall, in writing, inform the CBN of its readiness to commence operations and such information shall be accompanied by one copy each of the following:

i. Shareholders' Register;
ii. Share certificate issued to each investor;
iii. Opening statement of affairs signed by directors and external auditors;
iv. Enterprise Risk Management Framework (ERMF);
v. Internal control policy;
vi. Minutes of pre-commencement board meeting;
vii. Evidence of integration of their infrastructure with the National Payments System; and
viii. Evidence of ability to meet technical requirements and infrastructural facilities in office equipment, computers, telecommunications, to perform banking operations, render

regulatory returns, respond to CBN’s requests and handle customer complaints quickly and efficiently.

ix. Board and board committee charters stating the roles and responsibilities of the board and sub-committees;

4.2.6 Post-commencement Requirements

A Microfinance Bank shall:

i. Comply with all guidelines and regulations issued by the CBN and other sector regulators.
ii. Maintain adequate accounting system and keep records that capture information which reflect the financial condition of the bank.
iii. Maintain not less than the prescribed minimum capital at all times.
iv. Always comply with the requirements incidental to the authorization to perform banking operations as stipulated by the CBN from time to time.

4.2.7 Financial Requirements

a. The financial requirements for MFB types are as follows:

	Unit MFB		**State MFB (₦)**	**National MFB (₦)**
	Tier 1 (₦)	**Tier 2 (₦)**		
Minimum Capital	200,000,000	50,000,000	1,000,000,000	5,000,000,000
Non-refundable Application fee	100,000	100,000	200,000	300,000
Non-refundable Licensing fee	250,000	250,000	500,000	1,000,000
Non-refundable Change of Name fee	50,000	50,000	100,000	250,000

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

c. The investment of the Share Capital Deposit in compliance with BOFIA, shall be subject to availability of investment instruments and upon the grant of license or otherwise, the Bank shall refund the sum deposited to the applicant, together with the investment income, if any, after deducting administrative expenses and tax on the income.

4.2.8 Insurance Coverage

a) Compliance with Deposit Insurance Scheme

In accordance with Section 15(1) of the Nigeria Deposit Insurance Corporation (NDIC) Act 2006, every licensed MFB shall be required to insure its deposit liabilities with the Corporation.

b) Compliance with Staff Fidelity Insurance

In line with Section 33 of the NDIC Act 2006, an insured MFB shall have fidelity insurance coverage up to such level as may be prescribed from time to time by the NDIC.

4.2.9 Membership of National Association of Microfinance Banks

i. Every MFB shall be required to be a financial member of the National Association of Microfinance Banks (NAMB).

ii. MFBs are required to pay their annual subscription to NAMB not later than 31st January of every year.

5.0 CORPORATE GOVERNANCE

5.1 Basic Requirements

a. The provisions of the CBN Code of Corporate Governance (the Code) for MFBs shall be applicable to all categories of MFBs.

   Without prejudice to the provision of sub-section 2.4.2 of the Code, where a current employee of a commercial bank or other financial institution is proposed for the position of director in an MFB, the consent of the employer must be given in writing to the CBN.

b. The provisions of the Revised Assessment Criteria for Approved Persons' Regime for Financial Institutions shall be applicable to Tier 1 Unit, State and National MFBs.

   The minimum qualifications and experiences for officers who would occupy key/top management positions in Tier 2 Unit MFBs shall comply with the provisions below:

   Managing Director/CEO

   - A minimum of first degree or its equivalent in any discipline (additional qualification in any business related discipline would be an advantage);
   - Evidence that the candidate possesses proven skills and competences in practical microfinance banking and has undergone the Microfinance Certification Programme and obtained a Certificate in Microfinance Banking issued by the Chartered Institute of Bankers of Nigeria (CIBN); and
   - A minimum of 8 years post-graduation experience out of which, at least, 5 must have been in banking sector.

   Departmental Heads

   - A minimum of National Diploma or its equivalent qualification in any business related discipline.
   - Evidence that the candidate possesses proven skills and competences in practical microfinance banking.
   - A minimum of 5 years post-graduation experience which must have been in financial services industry.

5.2 Organizational Structure

An MFB shall be required to obtain the approval of the CBN for its organizational structure and subsequent changes which must be appropriate for the size and the complexity of its operations. An MFB shall submit a formal application letter with the following supporting documents:

a. Board resolution approving the new organizational structure.
b. Copy of the previous organizational chart approved by the CBN showing functions or offices.
c. Copy of the proposed organizational chart signed by at least two directors.
d. Detailed comparative analysis of the current and proposed structures.
e. Justification for the review of the organizational structure.

5.3 Certification

5.3.1 Head of Departments shall be required to obtain requisite certification in microfinance management from the Chartered Institute of Bankers of Nigeria (CIBN not later than three (3) years after assumption of office.

5.3.2 Failure to comply with the above condition shall be a ground for the removal of the affected officer.

6.0 FUNDING, ACCOUNTING AND RELATED MATTERS

6.1 Sources of Funds

The sources of funds of a MFB may include the following:

a. Shareholders' funds – (paid-up share capital and reserves);

b. Deposits/Savings of customers;

c. Debenture/qualifying medium-long term loans;

d. Grants/Donations from individuals, organizations various tiers of government and international sources;

e. Foreign borrowings with prior approval of the CBN;

f. Intervention Funds from the CBN and other sources;

g. Fees and commissions; and

h. Interest and investment income.

6.2 Books of Account

a. The Board of Directors of an MFB shall ensure that the institution keeps proper books of account with respect to all transactions at the principal administrative office and in all its branches in English Language only.

b. Books of account shall contain all information necessary to explain all transactions and give a true and fair view of the state of affairs of the MFB.

c. The Books of account shall be presented in compliance with the International Financial Reporting Standards (IFRS).

d. Where the Bank considers it necessary, it may appoint a firm of qualified accountants to prepare proper books of account or render accurate returns, as the case may be, for the MFB concerned. The cost of preparing the accounts or rendering the returns shall be borne by the MFB.

e. If a Director, Manager or Officer of an MFB fails to take all reasonable steps to secure compliance with any of the provisions of this section, he or she shall be appropriately sanctioned in line with the provisions of this Guidelines.

6.3 Rendition of Returns

6.3.1 The following monthly returns shall be submitted by all MFBs:

a. Statement of Assets and Liabilities;
b. Profit and Loss account;
c. Schedule of Loans and Investments on sector basis (number and value).
d. Schedule of liabilities (deposits) on maturity basis (number and value);
e. Interest rate structure;
f. Fraud and Forgeries (including NIL report);
g. Schedule of balances held with banks and other financial institutions;
h. Borrowings from other MFBs, other financial institutions, individuals and non-financial institutions;
i. Credits to other MFBs, other financial institutions, individuals/non-financial institutions, shareholders, and affiliates;
j. Credits to Directors, Management Staff and related parties;
k. Non-performing credits;
l. Off balance sheet engagements;
m. Non-performing other assets;
n. AML/CFT returns
o. CBN Intervention funds; and
p. Other items as may be specified by the CBN from time to time.

6.3.2 All monthly returns must reach the Directors of Other Financial Institutions Supervision Department (OFISD) of the CBN and Special Insured Institutions Department (SIID) of the Nigeria Deposit Insurance Corporation (NDIC) not later than 14 days after the end of each month. Suspicious Transaction Reports should be filed with Nigerian Financial Intelligence Unit [NFIU]

6.3.3 MFBs shall render corporate governance and whistle blowing returns on a semi-annual basis to the Other Financial Institutions Supervision Department (OFISD) not later than seven (7) days after the end of relevant period.

6.3.4 The Managing Director/Chief Executive Officer and the Chief Accountant [or equivalent] of the MFB shall sign and attest to the authenticity of the contents of the returns. The frequency of the returns may be reviewed from time to time by the CBN.

7.0 OPERATIONAL REQUIREMENTS FOR CBN INTERVENTION FUNDS

7.1 CBN Interventions and Objectives

In trying to achieve its strategic objective of sustainable economic growth and development, the CBN designs and implements policies and programmes aimed at encouraging the flow of finance/capital to the real sector of the Nigerian economy. These include intervention funds channeled to Small and Medium Enterprises to address one of the critical challenges that hinder them from playing their expected role in the economy.

7.2 Role of MFBs

The CBN partners with financial institutions, including Microfinance Banks for the delivery of the interventions to the intended groups. The role of the MFB may vary per intervention and may include:

a) Credit administration, whereby the MFB that serves as Participating Financial Institution [PFI] carries out due diligence of the customer and appraises the credit request and disburses the funds. In addition, the MFB is responsible for the monitoring of the facility and/or project.
b) Channel for disbursement, whereby the MFB only disburses intervention funds on behalf of another party, e.g. State Government.

Participating MFBs are expected to abide by the guidelines of the respective intervention and/or the agreement between the parties.

7.3 Credit Risk

a) Where the MFB bears the credit risk of the intervention, such facilities shall be treated as "on-balance sheet items" with appropriate provisions made in line with Section 11.14 of this Guidelines.
b) Where the MFB serves only as a disbursing channel for another party, e.g. on behalf of the State Government, the MFB is only expected to comply with the terms of agreement executed with the party.
c) In any of the cases in paragraph (a) and (b) of this sub-section, full disclosure by the MFB on the intervention facilities shall be required.

7.4 Single Obligor Limit

Where the MFB bears the credit risk of the intervention, the single obligor limit on the funds disbursed to loan beneficiaries shall be as applicable in the extant Prudential Guidelines for MFBs. Any exception to this provision should be with the approval of CBN.

8.0 COMPLIANCE WITH MONEY LAUNDERING (PROHIBITION) ACT, 2011, TERRORISM (PREVENTION) ACT, 2011 AND CBN (ANTI-MONEY LAUNDERING AND COMBATTING THE FINANCING OF TERRORISM IN BANKS AND OTHER FINANCIAL INSTITUTIONS IN NIGERIA) REGULATIONS, 2013 AND CIRCULARS

Every MFB shall comply with the Money Laundering [Prohibition] Act, 2011 [as amended]; terrorism Prevention Act, 2011 [as amended]; CBN AML/CFT Regulations, 2013 and all relevant AML/CFT regulations and circulars. Also, an MFB shall have a Compliance Officer designated for this purpose, who shall not be below the grade of a Management staff.

All MFBs are required to develop and implement appropriate policies, processes and procedures to mitigate the risk of money laundering and financing of terrorism including the designation of a Compliance Officer, who shall not be below the grade of a Management staff.

Failure to comply with the extant AML/CFT laws and regulations shall attract sanctions in line with the CBN Administrative Sanctions Regulations 2018.

9.0 COMPLIANCE WITH PROVISIONS OF THE GUDELINES FOR WHISTLE-BLOWING IN THE NIGERIAN BANKING INDUSTRY

9.1 MFBs shall be required to comply with the provisions of the Guidelines for Whistle-blowing in the Nigerian Banking Industry and relevant circulars as issued by the CBN from time to time.

10.0 PUBLICATION OF AUDITED FINANCIAL STATEMENTS

10.1 Every MFB shall submit its audited financial statements and the abridged version of the accounts to the Director, Other Financial Institutions Supervision Department (OFISD) for approval for publication not later than four months after the end of the financial year;

10.2 All MFBs shall display the abridged version of the audited financial statements in a conspicuous place at its Head Office and all its branches;

10.3 National MFBs are required to publish their annual accounts in a national daily newspaper;

10.4 The Domestic Report on the Accounts from the External Auditors shall be forwarded to the Director, OFISD of the CBN not later than three months after the end of the accounting year;

10.5 Every audited account shall disclose in detail, the penalties paid as a result of the contravention of BOFIA, 1991 [as amended], Circulars or Policy Guidelines in force during the year in question and the auditor's report shall reflect such contraventions; and

10.6 No MFB shall hold its Annual General Meeting (AGM) without prior approval of its Annual Audited Account by the CBN.

11.0 PRUDENTIAL REQUIREMENTS

11.1 MFBs shall be required to comply with the provisions of the Prudential Guidelines for Microfinance Banks in Nigeria and relevant circulars as issued by the CBN from time to time.

12.0 COMPLIANCE WITH THE PROVISIONS OF THE RISK-BASED CYBERSECURITY FRAMEWORK AND GUIDELINES FOR OTHER FINANCIAL INSTITUTIONS

MFBs shall comply with the provisions of the Risk-based Cybersecurity polices as may be issued by the CBN from time to time

13.0 RISK MANAGEMENT

13.1 Every MFB shall be required to put in place appropriate policies, processes and procedures to identify, measure, monitor and control its risk exposures.

13.2 At minimum, the Enterprise Risk Management Framework shall provide for the management of the following risks as contained in the Supervisory Framework for Banks and Other financial Institutions in Nigeria:

a. Credit Risk

b. Market Risk

c. Operational Risk

d. Liquidity Risk

e. Legal and Regulatory Risk

f. Strategic Risk

g. Reputational Risk

h. Insurance Risk (for MFBs involved in micro insurance business).

13.3 On an annual basis, National MFBs shall, not later than the end of April, submit to the CBN the Internal Capital Adequacy Assessment Process (ICAAP) report as at 31 December of the previous year.

14.0 REQUIREMENTS FOR INCREASE IN SHARE CAPITAL

14.1 All increases in share capital in any form shall be approved by the CBN prior to filing with the Corporate Affairs Commission (CAC). The request for approval shall be supported with the following:

a. Formal application letter to CBN;
b. Board resolution authorizing the increase;
c. Extract of resolution at the Annual General Meeting (AGM) or Extraordinary General Meeting (EGM);
d. Schedule in a tabular form indicating existing and prospective shareholders with the proportion of their shareholding;
e. Evidence of deposit for shares. Cash payment for shares purchase shall be subject to maximum of One Hundred Thousand (₦100,000) Naira.
f. Statements of accounts from banks reflecting the cheques lodged and cleared;
g. Vouchers showing evidence of internal transfer or payment for the rights issues allotted;
h. Provide means of identification, tax clearance certificates, Bank Verification Number (BVN) and Resumes for acquisition of 5 per cent and above.
i. Submit board resolution, preceding three (3) years audited accounts, MEMART and tax clearance certificates for institutional investors.
j. MFB transforming into a Public limited Liability Company (PLC) shall provide approval from Securities and Exchange Commission (SEC).
k. Any other information that may be required or stipulated by the CBN.

14.2 Upon filling with the CAC, MFBs shall submit the following documents to the CBN:

a. Amended Form CAC 1.1
b. Evidence of payment of stamp duty;
c. CAC Share increase certificate;
d. Share certificates issued to shareholders;
e. Photocopy of the share register showing the entries of allotment; and
f. Any other information that may be required or stipulated by the CBN from time to time.

15.0 DISLOSURE OF REQUIRED INFORMATION TO CREDIT REFERENCE BUREAUX

1. MFBs shall be required to register with at two (2) licensed Credit Bureaux
2. Every MFB shall be required to provide:

a. information on all its credit clients to at least two (2) licensed Credit Bureaux.

b. information on its customers involved in financial malpractices, including the issuance of dud cheques

c. details of non-performing loans or credit facilities classified as pass and watch, sub-standard, doubtful or lost in its portfolio, where:

d. the amount owed is not in dispute;

e. the customer has not made satisfactory proposals for repayment following formal demands; and

f. the customer has been given at least 28 days' notice of the intention to disclose that information to the Credit Bureau;

g. MFBs shall not divulge customers' information other than those referred to in the above sub-section (a) to the Credit Bureau without the customers' consent.

h. Nothing in this section shall prevent MFBs and Credit Bureau from disclosing the information referred to in paragraph (a) above provided the information is disclosed in good faith and/or in the normal course of business.

i. A Customer of an MFB shall have the right to know that information on their credit status has been forwarded to the Credit Bureau.

16.0 OPERATIONAL REQUIRMENTS AND CONTROLS

16.1 Opening/Relocation and Closing of Branches/Cash Centres

MFBs shall obtain approval from the CBN, in writing, to open, relocate or close its head office, branches or cash centres.

MFBs shall consider environmental, social and governance factors in the establishment, relocation or closure of their head offices, branches or cash centres in line with the Sustainable Banking Principles and Guidelines for the Nigerian Banking Industry.

16.2 Change of Name

Every MFB shall be required to obtain CBN's approval before effecting a change of name as contained in its operational licence

16.3 Display of Licence

A copy of an MFB's licence shall be displayed in a conspicuous position at its Head Office, branches and cash centres.

16.4 Display of Interest Rates and Fees

Every MFB shall display in a conspicuous place at its Head Offices, branches and cash centres, its annualized interest rates and fees.

16.5 Internal Controls and Audit

a. Every MFB must include a statement on the effectiveness of the internal control signed off by at least two members of its Board of Directors as part of its audited financial statements. Also, a declaration on the risks inherent in the business of the MFB and the controls put in place to mitigate the identified risks shall be part of the directors' reports.

b. Where it is established that an officer of an MFB has been involved in fraud related offences, the officer shall be reported to the CBN for listing in the "Black Book";

c. Every MFB shall be required to comply with the 'Regulatory Framework for Bank Verification Number (BVN) operations and Watchlist for the Nigerian Financial System'

d. Every MFB shall develop, implement and submit evidence of implementation of an internal control framework in line with the Principles of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, 2013 and should comprise the following areas of internal control;

i. Control environment
ii. Risk assessment
iii. Control activities
iv. Information and communication, and
v. Monitoring.

e. Every MFB shall have an Internal Audit Unit. The Internal Auditor shall report directly to the Board Audit Committee.

16.6 Opening Account with CBN

a) MFBs shall allowed to open account with the CBN, be eligible to participate in CBN intervention funds and the Development Bank of Nigeria’s on-lending activities provided the following conditions are met.
   i) Meet the minimum capital requirement;
   ii) Ensure that its operations are in line with the Code of Corporate Governance for MFBs;
   iii) Three preceding years audited financial statements;
   iv) Obtaining an approval in writing from Director, OFISD to open an account with the CBN
   v) Any other condition (s) that may be specified by the CBN from time to time
b) National and state MFBs that comply with the provisions of paragraph (a) of this sub-section shall be eligible to open accounts with CBN branches in their respective states of authorization. Also, National MFBs may elect to open accounts with Banking Services Department (BKSD) of the CBN.

17.0 APPOINTMENT OF EXTERNAL AUDITOR

MFBs shall appoint an external auditor which shall be approved by the CBN. The auditor shall satisfy the following requirements:

a. A member of a recognized professional accountancy body in Nigeria;

b. Currently in professional practice as accountant and auditor in Nigeria;

c. No person or auditing firm shall be appointed as the auditor of an MFB if:

    i. He/she has interest in that MFB other than as a depositor;

    ii. He/she is a Director, Officer or agent of such institution;

    iii. It is a firm in which a Director of the MFB has interest as partner or Director;

    iv. It is a firm in which a Director of the MFB is the spouse of a partner or Director; and

    v. He/she is indebted to the MFB.

d. Any auditor who is subsequently affected by Section 17.1.1(c) above shall immediately cease to carry on as the auditor of the MFB.

e. If any MFB fails to appoint or fill a vacancy for an approved auditor, the CBN shall appoint a suitable person for that purpose and shall fix the remuneration to be paid by the MFB to such auditor.

17.1 The responsibilities of an approved external auditor shall include the following amongst others:

a. To immediately report to the CBN formally if he/she is satisfied that:

    i. There has been a contravention of BOFIA, 1991 [as amended] or that an offence under any other law, guidelines, circulars, etc. has been committed by the MFB or any of its Officers; or

    ii. Losses have been sustained by the MFB which had substantially reduced its capital funds; or

    iii. Any irregularity which jeopardizes the interest of depositors or creditors of the MFB has occurred, or

    iv. The firm is unable to confirm that the claims of the depositors or creditors are covered by the assets of the MFB.

b. To forward to the CBN two (2) copies of the domestic report on the activities of the MFB not later than three (3) months after the end of the financial year of such MFB.

c. To have access, at all times, to the books, accounts and vouchers of the MFB and be entitled to require from Directors, Managers and Officers of the MFB all information and explanation considered necessary for the performance of the audit.

d. No Audit Firm shall serve the same institution as External Auditor for a continuous period exceeding ten (10) years.

17.2 The appointment and change of external auditors shall require the approval of CBN, supported with the following documents:

a. Board resolution;
b. Shareholders resolution at AGM/EGM;
c. Justification for the appointment or change;
d. Disengagement letter to the previous External Auditors;
e. Disengaged External Auditors' response to (d) above;
f. Statement of compliance with Section 29 (2 and 3) of BOFIA by the proposed External Auditors;
g. Letter of engagement;
h. Letter of Acceptance of the audit services by the proposed External Auditors;
i. External Auditors' practicing licence;
j. Profile of the proposed Auditors and particulars of Partners; and
k. Resume and means of identification of the principal Partner(s). Each page of the Resume must be signed.

18.0 SCHEME OF ARRANGEMENT

a. MFBs shall not enter into any "Scheme of Arrangement" with its creditors/investors without the prior approval of the CBN.

b. Any MFB that is unable to meet its obligations to its depositors, creditors or investors shall submit a proposal to restore liquidity or viability and for eventual settlement of its outstanding obligations to the Director of OFISD for consideration and approval.

c. Upon CBN approval, notification of the scheme shall also be made to the Director of SIID by the MFB.

19.0 RESTRUCTURING AND RE-ORGANIZATION

19.1 Except with the prior approval of the CBN, no MFB shall enter into an agreement or arrangement:

a. Which will result in a change in the control of the MFB;
b. For the sale, disposal or transfer of the whole or any part of the business of the MFB;
c. For the amalgamation or merger of the MFB with any other company;
d. For the restructuring of the MFB;
e. To employ a managing agent or to transfer its business to any such agent and;

f. Any other requirement as may be specified by the CBN from time to time.

19.2 Documentation to submit for restructuring and re-organization shall include the following:

a. Excerpt of special resolutions at an EGM or AGM;
b. Court order sanctioning the special resolutions;
c. Justification for intended capital restructuring;
d. Agreement with relevant parties (investors/creditors);
e. Schedule of new investors/creditors with details of capital invested/long-term credit lines, including sources of the funds; and
f. Business profile, Memorandum, and Articles of Association, Board resolution of institutional investor(s) and creditors, if any.

19.3 Mergers and Acquisition

The following documents shall be submitted for approval of Mergers and Acquisitions:

a. Application letter signed by the Chairman and Managing Director of each of the merging institutions.
b. Board resolution.
c. Extract from the AGM or EGM ratifying the resolutions of the Board.
d. Audited statement of affairs or statement of accounts.
e. Agreement between the acquiring and target entities.
f. Memorandum and Articles of Association of the acquiring institution.
g. Certificate of Incorporation of the acquiring institution.
h. List of significant shareholders of the existing institutions (i.e. shareholding of 5% and above) showing their names, business and residential addresses (not P.O. Box).

i. Proposed organizational structure, showing functional units, reporting relationships and status of heads of departments/units of the successor institution.
j. List of proposed directors, their curriculum vitae, designation and interests they are to represent in the successor institution.
k. List of the proposed top management staff of the enlarged institution, their designations and duly signed Resume.
l. Due diligence report on each of the merging institutions.
m. Criteria for selecting new board members, including independent directors.
n. Comprehensive integration plan, for the enlarged institution covering at a minimum, enterprise risk management, business continuity and corporate governance.
o. Board resolution to change the name of the MFB (where applicable) and the proposed name.
p. Evidence of payment of fee for the change of name (where applicable).
q. Evidence of name reservation with Corporate Affairs Commission (CAC).

20.0 TRANSFORMATION OF NON GOVERNMENTAL ORGANISATION – MICROFINANCE INSTITUTIONS (NGO-MFI)

a) An NGO-MFI wishing to obtain an operating licence as a microfinance bank shall be required to meet the stipulated provisions in the Regulatory and Supervisory Guidelines for MFBs in Nigeria.

b) A transforming NGO-MFI shall be required to provide an Institutional Assessment by a rating agency covering the following areas:

  i. The Institution's financial position
  ii. Governance structure
  iii. Human resources
  iv. Risk management policy
  v. Control procedures
  vi. Accounting
  vii. Management Information Systems.

c) The institution shall also be required to submit separate monthly returns of its microfinance portfolio, aside from its other lending activities.

d) A Certified Statement of Affairs by a firm of Chartered Accountants acceptable to the CBN shall also be required.

e) In determination of the minimum capital requirement/ shareholders' funds, an existing NGO-MFI shall be exempted from depositing the paid-up capital requirement with the Central Bank of Nigeria.

f) Where capital/shareholders' funds falls short of the regulatory requirement, the NGO-MFI shall be required to deposit the shortfall with the CBN for verification and approval.

21.0 CONDITIONS FOR REVOCATION OF LICENSE

The license of an MFB may be revoked for any of the following reasons:

a. Submission of false information/data during and/or after the processing of the application for license;

b. The use of proxies or disguised names to obtain a license to operate as an MFB;

c. Engaging in non-permissible activities as specified in Section 2.2 of this Guidelines;

d. Persistent failure to comply with request for information/data in the form required/specified by the CBN;

e. Diversion or misuse of CBN intervention fund;

f. Failure to redeem matured obligations to customers;

g. Failure to render statutory returns for a continuous period of 6 months or for a cumulative period of 6 months in a financial year;

h. Unauthorized closure of business activities;

i. Failure to comply with any directive issued by the CBN;

j. Critically undercapitalized or insolvent; and

k. Any other grounds for revocation as may be specified by the CBN from time to time.

22.0 EXIT CONDITIONS

The condition for exit of a licensed MFB shall be as prescribed by the relevant sections of the BOFIA and the CAMA

23.0 SANCTIONS GRID

S/N	OFFENCES	PENALTIES
2	Engaging in activities outside the approved business.	A fine of ₦500,000. In addition, the bank shall forfeit the estimated profit from the engagement.
3	Opening branch or cash office without the approval of the CBN.	A fine of ₦500,000, ₦1,000,000 and ₦2,000,000 per branch opened for a Unit, State and National MFBs respectively; and the closure of such branch within a period of thirty (30) days.
4	Failure to close unapproved branch office or a cash centre in line with the Guidelines.	A penalty of ₦10,000 for each day of default irrespective of the category of the MFB.
5	Relocation of Head Office, Branch Cash Centre without prior approval of the CBN.	A fine of ₦500,000, ₦1,000,000 and ₦2,000,000 for a Unit, State and National MFBs respectively. .
6	Failure of the MFB to obtain prior approval of the CBN for change of name. Failure to display licence in the H/O and branches. Failure to display interest rates and fees in all its offices. Failure to seek the CBN's prior written approval before the appointment	A fine of ₦500,000 irrespective of the category of the MFB. A fine of ₦100,000 for each location without the display of the licence. A fine of ₦50,000 after which ₦5,000 shall be payable for each day during which the offence continues. A penalty of ₦500,000, ₦1,000,000 and ₦2,000,000 for Unit, State and National MFBs respectively and the nullification of the appointment.

S/N	OFFENCES	PENALTIES
	of an external auditors.	
7	Failure or negligence of an External Auditor to comply with the provisions of this Guidelines.	A fine of N500,000 and/or the determination of his/her status as an approved auditor to all financial institutions under the supervisory purview of the CBN.
8	Failure to comply with the provision of scheme of arrangements	A fine of ₦500,000, ₦750,000 and ₦1,000,000 for Unit, State and National MFBs respectively.
9	Failure to obtain the CBN approval before going into any form of restructuring or re-organization.	A fine of N500,000 regardless of the category of the MFB.
10	Technical insolvency	Revocation of licence.
11	Failure to redeem matured obligations for a consecutive period of three (3) months	Revocation of licence.
12	Engaging in activities /functions outside the	Revocation of licence.

S/N	OFFENCES	PENALTIES
	permissible scope of its licence.	
13	Multiple ownership/using proxies to obtain a licence to operate as an MFB.	Revocation of licence.
14	Investing more than 20% of shareholders' fund unimpaired by losses in fixed assets.	A penalty of 1% of the excess investment in fixed assets and prohibition of further investment in fixed assets until the requirement is achieved.
15	Failure by any Director or Officer to disclose interest in any facility	A fine of ₦500,000 and removal from office of the Director or Officer.
16	Declaration or payment of dividend in contravention of the Prudential Guidelines for MFBs	The Directors and the Chief Executive Officer of the MFB shall be liable to a penalty of five (5) percent of the gross dividend paid and such other sanctions as may be deemed appropriate by the CBN.
17	Failure to implement all recommendations contained in the CBN/NDIC examination reports.	A fine of ₦100,000 for each recommendation not fully implemented. Persistent non-implementation of the recommendations contained in the examination reports shall be considered a ground for the removal of the affected Board member(s) and management staff from office.
18	Revaluation of fixed assets without CBN approval.	A penalty of 1% of the revaluation amount, reversal to the previous value and issuance of a warning letter to the MD/CEO.
19	Failure of an MFB to maintain at least 5% and not more than 10% of its deposit liabilities in treasury bills.	A fine of 1% of the amount not invested and excess amount above the 10% limit.

S/N	OFFENCES	PENALTIES
20	Investments of more than 15% in placements and fixed deposits.	A penalty of 1% of the excess investment in placements and fixed deposits.
21	Contravention of the single obligor limit without CBN approval.	A penalty of 5% of the excess amount above the limit and a letter of warning to the Managing Director.
23	Failure to comply with Terms and Conditions guiding the CBN's Intervention Funds.	Suspension from further participation in CBN's intervention funds until so determined by the CBN.
25	Failure to maintain proper books of accounts and records	A fine of ₦100,000 for each Director and N50,000 for each of the officers involved. In addition, a warning letter shall be served on the Managing Director of the affected bank. If any default in this respect is caused by the willful act of any Director or Officer of the MFB, such Director or Officer shall be removed from office and blacklisted in order to protect the integrity of the financial system. In addition, the Bank may impose on the MFB such other penalties as are deemed appropriate.
26	Persistent failure/refusal to render returns in the prescribed format for a continuous period of six (6) months in a calendar year.	Revocation of licence.
27	Submission of false/ inaccurate information to regulators.	A fine of ₦250,000 and a warning letter to the Managing Director of the MFB. Subsequent rendition of false or inaccurate returns/information shall lead

S/N	OFFENCES	PENALTIES
		to the removal of the Managing Director. Where it is established that a Director or an Officer of an MFB provides false information to a third party, such Director or Officer shall be removed from office and blacklisted.
28	Late rendition of monthly returns.	A fine of ₦5,000 for each day during which such infraction occurs. Subsequent failure/refusal to render returns in the prescribed format shall be a ground for the revocation of an MFB's licence.
29	Late submission of audited annual accounts.	A fine of ₦5,000 for each day during which such infraction occurs.
30	Holding AGM without prior approval of its annual audited accounts by the CBN.	A penalty of ₦250,000, ₦500,000 and ₦1, 000,000 for a Unit, State and National MFBs respectively.
31	Failure to publish audited financial statements.	A fine of ₦5,000 for each day during which the offence continues and instant display of the abridged audited accounts.
32	Failure to comply with prudential requirements such as compulsory investment in treasury bills, maintenance of adequate liquidity and capital adequacy ratios.	Prohibition from any or all of the following: (a) Granting credits and undertaking further investment; (b) Payment of dividends to shareholders; (c) Borrowing from investing public; and/or (d) Opening of branch(es) or cash centre(s)
33	Failure to obtain the approval of the CBN for the appointment of new directors and top management.	A fine of ₦100,000 payable, by the institution for each of the directors or top management staff so appointed. In addition, the appointee should cease to function in that position.

S/N	OFFENCES	PENALTIES
35	Failure to report dismissed staff to the CBN/NDIC.	A fine of ₦200,000 payable by the institution.
36	Failure to report fraud/forgeries to the CBN/NDIC	A fine of ₦300,000 payable by the institution.

24.0 INTERPRETATIONS OF TERMS

a) Housing Microfinance

Housing microfinance is primarily the provision of microcredit to meet the demand of low-income households to renovate or improve their existing homes, construct basic infrastructure, expand existing homes, or build new homes incrementally one loan at a time. It consists of other related financial services—such as access to savings, remittances, and micro-insurance—to meet the demand of low-income households but does not include construction finance or project finance, or multi-purpose consumer loans.

b) Microfinance Bank

A microfinance bank (MFB), unless otherwise stated, shall be construed to mean any company licensed by the CBN to carry on the business of providing financial services such as savings and deposits, loans, domestic fund transfers, other financial and non-financial services to microfinance clients.

c) Microfinance Client

A microfinance client shall include the economically active low-income earners, low income households, the un-banked and under-served people; in particular, vulnerable groups such as women, persons living with disabilities, youths, micro-entrepreneurs, informal sector operators, subsistence farmers in urban and rural areas.

d) Microenterprise

A microenterprise is a business that operates with very small start-up capital. The management is often built around the sole owner or micro-entrepreneur. It provides employment for few people mainly the immediate family members and does not often require formal registration to start.

The management and accounting requirements are very simple and flexible. Generally, most micro-entrepreneurs work informally, without business licenses or formal records of their activities. The scope of economic activities of micro-enterprises typically includes primary production and crafts, value added processing, distributive trades and diverse services.

e) Micro Loan

A micro loan is a facility granted to the operators of micro-enterprises, such as peasant farmers, artisans, fishermen, youths, women, senior citizens and non-salaried workers in the formal and informal sectors. The loans are usually unsecured, but typically granted on the basis of the applicant's character and the combined cash flow of the business and household.

The tenure of micro loans is usually within 180 days (6 months). In the case of agriculture, or projects with longer gestation period, a maximum tenure of twenty-four (24) months is permissible for micro loans. In the same vein, a maximum tenure of thirty-six (36) months is permissible for housing micro loans.

The maximum principal amount shall not exceed ₦500,000 for Tier 2 Unit MFB and ₦1,000,000 for other categories, and/or as may be reviewed from time to time by the CBN.

Micro loans may also require joint and several guarantees of one or more persons. The repayment may be on a daily, weekly, bi-monthly, monthly basis or in accordance with amortization schedule in the loan contract.

f) Non-Governmental Organization Microfinance Institutions (NGO-MFI)

These are microfinance Institutions licensed by the Federal Ministry of Trade and Investments`.

g) Past Due Microfinance Loans:

This is any loan which repayment is past due for at least one day in accordance with the agreed repayment term in the loan contract. The past due microfinance loans shall remain in the account of the MFB until it is fully repaid or written off.

h) Portfolio at Risk

PAR is the outstanding principal amount of all loans that have at least one installment past due for more than thirty (30) days. The amount includes the unpaid principal balance but excludes the accrued interest Under PAR, loans are considered past due if payment has fallen due and remained unpaid.

i) Related Party

A related party is an individual or group of individuals that is connected to any of the Directors and Management staff of an MFB. This could include a family member, relative, shareholder, related company, proxy or associate.

j) Restructured Microfinance Loans

These represent microfinance loans that have been renegotiated or modified to either lengthen or postpone the original scheduled installment payments, or substantially alter the original terms of the loans.

k) SME Loans

Small Medium Enterprises (SMEs) are businesses with turnover of less than N100 million per annum and/ or less than 300 employees. SMEs are businesses with assets (excluding land and buildings) of less than N500 million and/or less than 200 employees

SME Loans are loans with principal amount exceeding ₦500,000 (Tier 2 Unit MFB) and ₦1,000,000 (other MFB categories) but not exceeding one (1) percent of the shareholders' funds unimpaired by losses and with a tenure of more than six (6) months and or as may be reviewed from time to time by the CBN.

l) Critically undercapitalized MFBs

These are MFBs with Capital Adequacy Ratio of less than two percent but greater than zero.

m) Financial Inclusion

Financial Inclusion means that individuals and businesses have access to useful and affordable financial products and services that that meet their needs, delivered in a responsible and sustainable way. These services include but not limited to Savings, Credit, Payments, Pension and Insurance products.

n) Cybersecurity

Cybersecurity is the protection of computer systems from the theft or damage to the hardware, software or electronic data, as well as from the disruption or misdirection of the services they provide.

o) Sustainable Banking

Sustainable banking as an approach that recognises the role of banks in driving long-term economic development that is not only economically viable, but also environmentally responsible and socially relevant.

p) Non-Interest Microfinance Bank

A non-interest microfinance bank (NIMFB) is any microfinance bank licensed by the CBN which transacts banking business, engages in trading, investment and commercial activities and also provides financial products and services in accordance with the principles of Islamic Commercial Jurisprudence.

25.0 RECOMMENDED MINIMUM OPERATIONAL TEMPLATE FOR MICROFINANCE BANKS IN NIGERIA

MEASURES	ITEM	RECOMMENDED STANDARD FOR MFBs
CAPITAL	Capital Adequacy ratio	10% minimum
	Adjusted capital to Net credits ratio	1:10 maximum
	Maintenance of Reserve funds	S.11.9 of the Guidelines.
	Maximum investments in fixed Assets	20% of Shareholders' Funds unimpaired by losses (SHF) S.11.6 of the Guidelines.
	Maximum Equity Investment Holding ratio	≤ 7.5% of SHF (S.11.13 of the Guidelines.)
ASSET	Maximum amount per micro loan	₦500,000.00 or and ₦1,000,000 for Tier 2 Unit MFB and other categories respectively [S.25 (e) of the Guidelines.]
	Micro loans as a percentage of total loans	80% (S.11.12 of the Guidelines.)
	Portfolio at Risk (PAR)	≤ 5% (S.11.21 of the Guidelines.)
	Net Loan portfolio as a percentage of total assets	60% minimum
	Growth in outreach	>20% annually
	Maximum aggregate insider related lending	≤ 5% of SHF (S.11.11 of the Guidelines.)
	Single obligor limit (Individual lending)	≤ 1% of SHF (S.11.11 of the Guidelines.)
	Single obligor limit (Group lending including cooperatives and corporate bodies)	≤ 5% of SHF (S.11.11 of the Guidelines.)
	Savings as a percentage of total deposits	60% minimum
	Percentage loans to	80%

MEASURES	ITEM	RECOMMENDED STANDARD FOR MFBs
	deposits	
	Loan portfolio profitability (Group Lending)	> 10%
	Loan Officer Productivity / Case Load (No. of active clients per Loan Officer)	250 – 300
	Provision for classified accounts	S.11.14 of the Guidelines
	Adequacy of loan loss provisioning	100%
	Risk Management Framework (RMF)	RMF should be in place and operational.
MANAGEMENT (Corporate Governance, Management, and Credit Administration)	Frequency of board meetings (minimum)	At least once per quarter
	Minimum Board Committees	Audit; Credit and Risk Management; and Finance & General purpose
	Minimum number of Unit Heads	Operations; Credit & Marketing; Finance & Admin.; and Internal Audit
	Minimum management committees	Finance & Admin.; Credit; and Assets & Liabilities
	No. of Loan Officer per branch	To be determined by the number of clients
	No. of members (clients) per group	Not less than 5 and not more than 30.
	Loan purpose and repayment cash flow	Must be clearly stated and from verifiable income source(s)
	Lending methodology	o Group solidarity model is more cost effective and highly recommended. o Individual loan but group responsibility. o Repeat loan increment, say ₦10,000 – ₦20,000, should be based on past repayment records. o Cash collateral/contractual savings – not less than 10% of principal amount of loan and refundable.
	Lending /outreach to	o Encourage formation of and linkage

MEASURES	ITEM	RECOMMENDED STANDARD FOR MFBs
	women	with women groups. o Annual incremental loans to women as a proportion of the bank's portfolio and client outreach.
	Micro loan tenure	6 months. For agriculture or projects with longer gestation a maximum tenure of 12 months is permissible. In housing microfinance, a maximum tenure of 24 months is permissible
	Follow up and collection of loan	7 days after disbursement, weekly collection
	First loan disbursement	Minimum of 4 weeks after enrolment as a client or member of solidarity group.
	First repayment installment starts	15 days after loan disbursement
	Loan repayment frequency	Weekly, except agricultural loans
	No. of installment to complete loan repayment	Should depend on the duration of loan
	Group member's mandatory savings	Minimum of ₦100.00 per week
	Mandatory loan	Optional
	Service charge (interest rate per annum)	Market determined but transparent.
EARNINGS	Operational Self-sufficiency (OSS) – a measure of total operating income to total costs (operating costs + loan loss provision + financing cost), that is: OSS = <u>Operating Income X 100</u> operating costs + loan loss provision + financing cost	> 100%
	Financial Self-	> 120%

MEASURES	ITEM	RECOMMENDED STANDARD FOR MFBs
	sufficiency (FSS) - a measure of a MFB's adjusted operating income to adjusted direct and indirect costs (i.e. operating costs + loan loss provision + financing cost), that is: FSS = Adj. Operating Income X 100 Adjusted (operating costs + loan loss provision + financing cost) NB: Operating income and expenses are adjusted for inflation and low interest or concessional loans.	
	Financial Sustainability	o Operate at full-cost recovery basis. o Maintain lean operational costs in order to record positive ROA and ROE.
	Average percentage of interest income to gross income	80%
	Average percentage of non-interest income to gross income	20%
	Operating Expenses to Total Assets	≤15%
	Staff Costs to Total Assets	≤10%
	Administrative Expenses to Total	≤5%

MEASURES	ITEM	RECOMMENDED STANDARD FOR MFBs
	Assets	
	Total Expenses to Total Assets	≤30%
LIQUIDITY	Liquidity Ratio	20%
	Maximum investment in placements	15% of total deposit liabilities.
	Minimum investment in Treasury Bills	Minimum of 5% and Maximum of 10%
SOCIAL PERFORMANCE MEASUREMENT	Mission and Vision	Should be clear and focused on the poor, women, or vulnerable groups.
	Transparent and responsible pricing	Prices, terms and conditions of financial products (including interest charges and all fees) should be clear, transparent, and adequately disclosed in a form understandable and affordable to the clients.
	Avoidance of over-indebtedness	Reasonable steps should be taken to ensure that credit will be extended only if the borrowers have demonstrated adequate ability to repay and loans will not put borrowers at significant risk of over-indebtedness.
	Disclosure of required information to Credit Reference Bureaux (CRBs)	Information on all credit clients should be supplied to licensed CRBs from time to time
BUSINESS PLAN	Strategic Plan and Annual Budgeting	o Adherence to Board's approved strategic plan. o Board's approval of annual budget.
	Funding / Financial Strategy	Clear financial strategy evidenced by a diversified funding base.
	Office accommodation	Simple and cost effective
	Own office building	o Prior CBN's approval strictly required for construction. o At no time should depositors' funds be used for this purpose.
	Branch expansion (including meeting points, customer service point, cash	o Simple, standardized, and cost effective branch structure. o Prior CBN's approval strictly required.

MEASURES	ITEM	RECOMMENDED STANDARD FOR MFBs
	centres and branches) – for State and National MFBs only	o At no time should depositors' funds be used for this purpose.
	Decision making hierarchy	Guided by authorization limits as approved by the Board of Directors.
	Manning level	Lean middle and top management
	Management Information System (MIS)	o Simple, robust with relevant modules, and e-FASS/FINA compliant. o Cost included in the prescribed 20% for fixed assets.
	Staff Training	o On-the-job at zero cost. o Low cost staff training budget as a function of net profit. o Microfinance Certification Programme (MCP) is compulsory for top management, that is, the Managing Director and Departmental Heads, and highly recommended for other staff.
	Credit administration	o Regular review and monitoring of loans and advances by loan at least once every thirty days. o Monitoring activities should be supported with periodic field visits (Places of business) to the clients.
	Key operational objective	Wide outreach at low operational unit costs and group solidarity model.