

CONSOLIDATED NATIONAL BANK of ETHIOPIA DIRECTIVES
LICENSING AND SUPERVISION of the BUSINESS of
MICROFINANCING INSTITUTIONS



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CONSOLIDATED NATIONAL BANK of ETHIOPIA DIRECTIVES

LICENSING AND SUPERVISION OF MICROFINANCE BUSINESS

Table of Contents

| DIRECTIVE | PAGE |
|---|-------------|
| MFI/01/96 MINIMUM PAID UP CAPITAL AND INFORMATION REQUIRED FROM APPLICANTS | 1 |
| MFI/02/96 CONTRIBUTION IN KIND | 8 |
| MFI/03/96 CRITERIA FOR SELECTION OF OFFICERS AND DIRECTORS | 9 |
| MFI/04/96 CONDITIONS TO BE MET PRIOR TO COMMENCEMENT OF OPERATIONS | 10 |
| MFI/05/96 LOAN POLICY, LIMIT, PERIOD AND PROVISIONS | 11 |
| MFI/06/96 INVESTMENT IN EQUITIES OF ALLIED ACTIVITIES | 12 |
| MFI/07/96 BRANCHES | 13 |
| MFI/08/96 Financial Records and Information | 14 |
| MFI/12/98 Amendment of Interest Rates | 18 |
| MFI/13/2002 Amendment of INTEREST RATES | 19 |
| MFI/14/2002 Penalty for Failure to Comply with the Requirements of Proclamation No. 40/1996 and Directives of the National Bank of Ethiopia | 20 |
| MFI/15/2002 Minimum Liquidity Requirement | 22 |
| MFI/16/2002 Minimum Capital Ratio to be maintained by Micro-finance Institutions | 25 |
| MFI/17/2002 Limits on Loans, Repayment Period and Provisioning Requirement | 28 |
| MFI/19/2007 Interest Rates Applicable to Micro-financing Institutions | 32 |



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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

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LICENSING AND SUPERVISION OF

THE BUSINESS OF

MICRO-FINANCING INSTITUTIONS

Directive No. MFI/01/96

MINIMUM PAID UP CAPITAL AND

INFORMATION REQUIRED FROM APPLICANTS

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and by Article 5 and 12 of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

2. Minimum Capital

An applicant for a license shall have the minimum paid-up capital of Birr 200,000 (Birr Two Hundred Thousand).

3. Information Required from Applicants

- 2.1 Evidence for paid up capital which includes certificate of deposit in a blocked subscription account and evidence for valuation of contributions in kind;
- 2.2 Memorandum and articles of association and proposed organizational chart of the institution with brief description of the functions of the main organizational units;
- 2.3 Proposed name of the institution;

2.4 Evidence of ownership, possession or lease agreement of an office building for items listed under sec. 10 of the application form attached hereto;

2.5 Work plan for the first year of operation, stating at least the following;

- a) Major financial services to be offered;
- b) Overview of the economic conditions of the area in which the institution intends to carry out its business;

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NATIONAL BANK OF ETHIOPIA

- c) Business plan covering the mobilization and channeling of funds and the steps to be undertaken to carry out this plan.

- d) Monthly cash flow projection for twelve months commencing from the time the institution starts its operations, and balance sheet and income statement projections;

2.6 Curriculum vitae of the proposed officers and directors including their age, marital status, education, employment history, experience and involvement in financial affairs, civic, social and charitable activities including any leadership position held; and

2.7 Duly completed application form as prescribed by the National Bank of Ethiopia and enclosure specified therein.

3. Fees

4.1 A Micro-financing Institution applying to undertake micro-financing business shall, at the time of lodging an application, pay an investigation fee of Birr 250.- (Birr Two Hundred Fifty);

4.2 A Micro-financing Institution licensed to undertake micro-financing business shall pay initial registration fee prescribed by the Ministry of Trade and Industry for registration of the Memorandum and Articles of Association;

4.3 A Micro-financing Institution licensed to undertake micro-financing business shall pay initial license fee of Birr 500.- (Birr Five Hundred);

4.4 A licensed Micro-financing Institution shall pay annual license renewal fee of Birr 300.- (Birr Three Hundred).

These directives shall enter into force as of 21st day of October 1996.

Dubale Jale

**Governor
National Bank of Ethiopia**

**APPLICATION FORM FOR A LICENSE TO CONDUCT
MICRO-FINANCING BUSINESS**

1. Name of applicant, designation and address _____

2. Proposed name of institution _____
3. Address and Proposed branches
 - 3.1 Head Office
 - Location _____
 - Postal Address _____
 - Tel. _____
 - Fax. _____
 - 3.2 Branch address (if any)
 - Location _____
 - Postal Address _____
 - Tel. _____

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4. Particulars of founders and share holding

| Name | Nationality | Address | Shares (In Birr) | |
|------|-------------|---------|------------------|---------|
| | | | Subscribed | Paid up |
| | | | | |

| | | | | |
|-------|--|--|--|--|
| | | | | |
| Total | | | | |

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5. Particulars of Directors and the Chief Executive Officer*

| Name | Age | National | Address | Number of Shares Held |
|------|-----|----------|---------|-----------------------|
|------|-----|----------|---------|-----------------------|

| | | | | |
|----------------------------|--|--|--|--|
| A. Directors | | | | |
| B. Chief Executive Officer | | | | |

* Attach C.V. of each Director and Chief Executive Officer

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6. Financial services and operation of the institution:

6.1 Financial services the institution intends to carry out

6.2 The manner in which the institution intends to carry out its transactions and operations

7. Contributions made in cash and in kind

7.1 In cash Birr _____ (Birr) _____)

7.2 In kind (specify the type of property and value in Birr and the manner of valuation)

8. Initial capital of the institution (in Birr)

8.1 Authorized capital Birr _____ (Birr) _____)

8.2 Subscribed capital Birr _____ (Birr) _____)

8.3 Paid-up capital Birr _____ (Birr) _____)

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9. Shares

9.1 Number of shares issued _____

9.1.1 Number of shared held by founders _____

9.1.2 Number of shares held by subscribers _____

9.2 Par value of each shares in Birr _____

10. Provide information on the manner of acquisition and cost of items listed there under*

| <u>Item</u> | <u>Manner of acquisition**</u> | <u>Cost (in Birr)</u> |
|--------------------------|--------------------------------|-----------------------|
| a) Building | _____ | _____ |
| b) Land | _____ | _____ |
| c) Vault | _____ | _____ |
| d) Equipment | _____ | _____ |
| e) Fixture | _____ | _____ |
| f) Professional Services | _____ | _____ |

* Indicate if any of the items listed are acquired from related parties

** Lease, purchase, rent, etc.

11. Gives statement that members of Board of Directors and Officers are vetted to fulfill the requirements stated under Article 18 of Proclamation No. 40/1996.

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12. Any other additional statements

13. Declaration

I hereby confirm that the forgoing statements are true and correct.

Date _____

Signature _____

Name and official designation of the applicant

LICENSING AND SUPERVISION OF
THE BUSINESS OF
MICRO-FINANCING INSTITUTIONS
DIRECTIVE NO. MFI/02/96
CONTRIBUTION IN KIND

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and by Article 5(1) of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

2. Contribution in kind

- 2.1 Items like building, essential vehicles, built in vault and others that are acceptable to the National Bank of Ethiopia may be considered as capital contribution;
- 2.2 Contributions in kind should be valued by professional and certified values acceptable to the National Bank of Ethiopia;
- 2.3 Capital contributions in kind shall not be considered for the purpose of fulfilling minimum required capital and shall not exceed 10% (ten percent) of paid up capital in excess of the minimum required capital.

These directives shall enter into force as of 21st day of October 1996.

Dubale Jale
Governor
National Bank of Ethiopia

LICENSING AND SUPERVISION OF
THE BUSINESS OF
MICRO-FINANCING INSTITUTIONS
DIRECTIVE NO. MFI/03/96
CRITERIA FOR SELECTION OF OFFICERS AND DIRECTORS

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and by Article 4(1) (d) of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

4. Criteria for Selection of the Chief Executive Officer

4.1 Education

A minimum of first degree in the field of social science or equivalent in relevant field.

4.2 Employment

A minimum of three (3) years experience in a senior post in a financial institution or related institutions.

4.3 Age

A minimum of 30 years

4.4 Marital Status

Preferably married or responsible to a family

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5. Criteria for Selection of Members of the Board of Directors

3.1 Education

Completion of high school education with ability to read and grasp reports

3.2 Employment

Members of the Board of Directors shall preferably have adequate managerial experience in business and/or similar organizations.

3.3 Age

A minimum of 25 years.

These directives shall enter into once as of 21st day of October 1996.

Dubale Jale
Governor
National Bank of Ethiopia

LICENSING AND SUPERVISION OF
THE BUSINESS OF
MICRO-FINANCING INSTITUTIONS

Directive No. MFI/04/96

CONDITIONS TO BE MET PRIOR TO COMMENCEMENT
OF OPERATIONS

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and by Article 7 of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

2. Conditions for the Commencement of Operation

A licensed institution shall be authorized to commence operations where it informs in writing the National Bank of Ethiopia at least 30(thirty) days prior to the actual commencement of its operations and where:

- a) A title deed or a signed lease agreement whichever is applicable for the premises is acquired and ready for commencement of operation;
- b) The fixed assets registered are in place;
- c) A detailed operational policy and plans and the relevant manuals are available; and
- d) Additionally, every institution should provide evidence to the Bank that all the conditions required under the license are met

These directives shall enter into once as of 21st day of October 1996.

LICENSING AND SUPERVISION OF
THE BUSINESS OF
MICRO-FINANCING INSTITUTIONS

Directive No. MFI/05/96

LOAN POLICY, LIMIT, PERIOD AND PROVISIONS

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and by Article 12(2) of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

2. Loan Policy

In the granting of loans, the institution shall give preference to the application of marginal farmers of the rural community and to the application of the rural and urban communities engaged in micro-economic activities whose cash requirements are small.

3. Single Borrower Loan Limit

Loans extended to any one borrower by a licensed institution shall not at any one time exceed Birr Five Thousand (Birr 5,000.-).

3. Single Loan Period

Repayment of loans shall not exceed 12 (twelve) months; however, considering the nature of the enterprise for which the loan is extended and repayment performance the institutions may reschedule such loans.

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4. Provisions

- 5.1 Provision for depreciation of fixed assets shall be made out of the annual income of the licensed institution in accordance with the law.

- 5.2 For provisioning purposes loans shall be categorized into two groups: bad loans/loss/and doubtful loans.
- 5.3 A loan is deemed bad loan/loss when the loan or outstanding balance has been overdue for more than one year and the borrower has no capacity to make further payments.
- 5.4 A loan is deemed doubtful when the monthly payment of the loan or outstanding balance is in arrears for more than six months.
- 5.5 Amounts of provision shall be for:
- | | |
|----------------|------|
| Bad loans | 100% |
| Doubtful loans | 50% |
- 5.6 Operating and accumulated losses shall be provided for from the annual net profit until such losses are fully covered.
- 5.7 Interest income on bad and doubtful loans shall not be accrued as income. Such interest income shall only be taken up as income when actual payments are made. Only on full settlement of the arrears or overdue loans may the institution accrue interest on these facilities.

These directives shall enter into force as of 21st day of October 1996.

Dubale Jale
Governor
National Bank of Ethiopia

**LICENSING AND SUPERVISION OF
THE BUSINESS OF
MICRO-FINANCING INSTITUTIONS**
Directive No. MFI/06/96
INVESTMENT IN EQUITIES OF ALLIED ACTIVITIES

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and by Article 25 of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

2. Investment in Allied Activities

- 2.1 Licensed institutions may invest in equities of allied activities provided that the total investment shall not exceed ten percent (10%) of the equity capital of the institution.
- 2.2 The equity investment of a licensed institution in any single enterprise shall be limited to three percent (3%) of the net worth of the institution.
- 2.3 Allied activities include:-
 - a) Bank, financial institutions and non-bank financial intermediaries;
 - b) Warehousing and other pre/post-harvest facilities;
 - c) Agricultural inputs and farm equipment distribution;
 - d) Trucking and transportation of agricultural products;
 - e) Other activities as may be determined by the National Bank of Ethiopia.

These directives shall enter into force as of 21st day of October 1996.

LICENSING AND SUPERVISION OF
THE BUSINESS OF
MICRO-FINANCING INSTITUTIONS
Directive No. MFI/07/96
BRANCHES

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and by Article 14 of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

3. Opening of Branch Offices

- 2.1 Every licensed institution may open new branches or subsidiaries or offices without prior approval of the National Bank of Ethiopia.
- 2.2 Every licensed institution which has opened new branch office shall in writing inform the National Bank of Ethiopia the full address, date of commencement of operation, and an overview of the economic conditions of the area where the new branch is situated not later than fifteen days after the commencement of operation.

5. Closure of Branch Offices

- 5.1 Closure of Branch office of a licensed institution may only be conducted after obtaining approval from the National Bank of Ethiopia.

- 5.2 An application for closure of a branch office shall be submitted by the board of directors of the concerned institution at least three months prior to conducting the intended closure of the branch office

These directives shall enter into force as of 21st day of October 1996.

Licensing and Supervision of the Business
of Micro-financing Institution
Directive No. MFI/08/96
Financial Records and Information

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by article 41 of the Monetary and Banking Proclamation No. 83/1994 and Article 12 (2) © of the Licensing and Supervision of the Business of Micro-Financing Institutions Proclamation No. 40/1996.

2. Forms and Entries

Records shall be kept and reports shall be submitted to the National Bank of Ethiopia in the form and manner as shown in the tables attached herewith which shall be part hereof.

3. Effective Date

These directives shall enter into force as of 21st day of October 1996.

Dubale Jale
Governor
National Bank of Ethiopia

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FROM MFI/001

Profit and Loss Statement (Quarterly)

Name of Institution: _____

Period Ending: _____

(Birr'000)

| | |
|------------------------|---|
| <u>Income</u> | |
| 1. | Interest income from loans |
| 2. | Service charge and commissions |
| 3. | Income from Investment in allied activities |
| 4. | Other operating Income |
| | Total Income |
| <u>Expenses</u> | |
| 5. | Employees salaries |
| 6. | Employees benefits |
| 7. | Other administrative expenses |
| 8. | Loan losses (Provisions) |
| 9. | Interest expenses |
| 10. | General expenses |
| | Total Expenses |
| 11. | Net Operating Profit/Loss |

Name of Officer _____

Designation _____

Signature _____ Date _____

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NATIONAL BANK OF ETHIOPIA

From MFI/002

Balance Sheet (Quarterly)

Name of Institution: _____

Period Ending: _____

(Birr '00)

| Assets | Amount | Liabilities & Capital | Amount |
|---|--------|----------------------------------|--------|
| 1. Cash in hand | | 1. Savings | |
| 2. Cash in banks | | 2. Other deposits | |
| 3. Short term investment | | 3. Borrowing from NBE | |
| 4. Loans | | 4. Borrowing from other banks | |
| 5. Long term investment | | 5. Borrowing from non-banks | |
| 6. Fixed assets and inventory | | 6. Other short term liabilities | |
| 7. Other assets | | 7. Other long-term liabilities | |
| | | 8. Paid-in equity (shareholders) | |
| | | 9. Donated equity | |
| | | 10. Other capital accounts | |
| | | 11. Profit/Loss | |
| Total | | Total | |
| Off balance sheet items | | | |
| 1. Unused credit facilities extended to customers | | | |
| 2. Other items | | | |
| Total | | | |

Name of Officer _____

Designation _____

Signature _____ Date _____

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NATIONAL BANK OF ETHIOPIA

4. Repeal

Interest rate Directive No. MFI/11/98 is hereby repealed and replaced by these Directives.

5. Effective Date

These Directives shall be effective as of the 1st day of August 1998.

Teklewold Atnafu
Governor
National Bank of Ethiopia

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NATIONAL BANK OF ETHIOPIA

From MFI/003

Credit and Saving Performance

Name of Institution: _____

Period Ending: _____

(Birr '00)

| | No. of Accounts | Amount |
|--|-----------------|--------|
| 1. Total loans outstanding | | |
| 2. Loans disbursed during the reporting period | | |
| 3. Total saving mobilized | | |
| Compulsory Savings | | |
| Voluntary Savings | | |

Name of Officer _____

Designation _____

Signature _____ Date _____

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NATIONAL BANK OF ETHIOPIA

From MFI/00

Unpaid Balance of Loans and Provisions

Name of Institution: _____

Period Ending: _____

(Birr '00)

| Risk Classification | No. of Accounts | Amount |
|--|-----------------|--------|
| 1. Doubtful loans | | |
| 2. Bad loans | | |
| 3. Total bad & doubtful loans | | |
| 4. Less: realizable value of security (if any) | | |
| 5. Specific provision required | | |
| 6. Specific provision held | | |
| 7. Excess/shortfall | | |
| 8. General provisions held (if any) | | |

Name of Officer _____

Designation _____

Signature _____ Date _____

**Licensing and Supervision of the Business
of Micro-financing Institutions**

Directive No. MFI/12/98

**Amendment of
Interest Rates**

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and by Article 12(2) (1) of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

2. Interest Rates

2.1 Deposit Rates

- a) The minimum interest rate paid per annum by Micro-financing Institutions on savings and time deposits shall be 6% (six percent).
- b) The Board of Directors of each Micro-financing Institution may set deposit rate that are higher than the minimum rate specified under 2.1 (a) hereinabove.

2.2 Lending Interest Rates

The interest rates to be charged on loans and advances extended by a micro-financing institution shall be determined by the Board of Directors of each micro-financing institution.

3. Reporting Requirement

Each Micro-financing Institution shall promptly report to the National Bank of Ethiopia its deposit and lending interest rates set by its Board of Directors from time to time.

Licensing and Supervision of the Business
of Micro-financing Institutions
Directive No. MFI/13/2002
Amendment of
INTEREST RATES

1. Issuing Authority

This directive is issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and by Article 12(2) of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

2. Interest Rates

2.1 Deposit Rates

- a) Each micro-finance institution is free to set the interest rate it shall pay on demand deposits;
- b) The minimum interest rate that shall be paid per annum by micro-financing institutions on savings and time deposits shall be 3% (three percent);
- c) The Board of Directors of each micro-financing institution may set deposit rates that are higher than the minimum rate specified under 2.1 (a) herein above.

2.2 Lending Interest Rates

The interest rate to be charged on loans and advances extended by a micro-financing institution shall be determined by the Board of Directors of each micro-financing institution.

3. Reporting Requirement

Each micro-financing institution shall promptly report to the National Bank of Ethiopia its deposit and lending interest rates set by its Board of Directors from time to time.

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NATIONAL BANK OF ETHIOPIA

4. Repeal

Interest rate Directive No. MFI/12/98 is hereby repealed and replaced by this Directive.

5. Effective Date

This directive shall be effective as of the 4th day of March 2002.

Teklewold Atnafu
Governor
National Bank of Ethiopia

Licensing and Supervision of the Business

Of Micro-financing Institutions

Directive No. MFI/14/2002

Penalty for Failure to Comply with the Requirements

of Proclamation No. 40/1996 and Directives of

the National Bank of Ethiopia

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by article 41 of the Monetary and Banking proclamation No. 83/1994 and by article 25 of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

2. Penalty

2.1 A micro-finance institution that fails to comply with, or violates the requirements of, any of the provisions of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996 or any of the directives of the National Bank of Ethiopia shall be liable to a penalty of Birr3,000 (three thousand birr).

2.2 A micro-finance institution that fails to pay the penalty imposed on it according to article 2.1 herein above shall be subject to an interest charge on the penalty amount assessed at the rate of twice the maximum annual lending rate of the concerned institution multiplied by the number of days for which the penalty amount remains outstanding. The number of days shall be counted starting one week after the date on which the micro-finance institution is notified of the imposition of penalty by letter, fax or telephone.

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NATIONAL BANK OF ETHIOPIA

2.3 Notwithstanding the above, penalty in the case of external audit and license renewal shall be imposed on a micro-finance institution if it:-

- (a) fails to submit to the National Bank of Ethiopia an external audit report within six months from the end of its financial year;
- (b) fails to renew its business license within one month from the date of expiry.

2.4 In the case of a micro-finance institution that has been penalized three times according to article 2.1 herein above, the National Bank of Ethiopia shall order the

removal of the Chief Executive Officer of the concerned institution from his office and his replacement by a duly qualified individual.

3. Scope of Application

The provisions of these directives shall be applicable on all micro-finance institutions licensed under Licensing and Supervision of the Business of Micro-financing Proclamation No. 40/1996.

4. Waiver

The National Bank of Ethiopia may waive imposition of the penalties set out under articles 2 herein above if the circumstances that led to non-compliance are found acceptable.

5. Effective Date

These directives shall come into force as of the 1st day of May 2002.

**Teklewold Atnafu
Governor
National Bank of Ethiopia**

**Licensing and Supervision of the Business of
Micro-financing Institutions
Directive No. MFI/15/2002**

Minimum Liquidity Requirement

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by article 41 of the Monetary and Banking Proclamation No. 83/1994 and by article 25 of the

Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

2. Definitions

- 2.1 “Deposits” shall mean any regular or irregular savings which may be withdrawn partially or totally at any time by the account holder;
- 2.2 “Liquid Assets” shall mean cash on hand, balances on deposit with banks and/or micro-finance institutions, short-term debt instruments such as treasury bills or other instruments that can be easily converted into cash without much loss in value;
- 2.3 “Savings” shall mean non-withdrawable mandatory or regular savings of members of a micro-financing institution;
- 2.4 “Short-term” shall mean the time period extending up to 12 months;
- 2.5 “Total Deposits” shall mean the sum of “savings” and “deposits.”

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NATIONAL BANK OF ETHIOPIA

3. Minimum Requirement

- 3.1 Micro-finance institutions shall maintain at all times liquid assets at least equal to 20 (twenty) percent of their total deposits;
- 3.2 For the purpose of monitoring compliance with the requirements set out under article 3.1 herein above, each micro-finance institution shall submit to the Supervision Department of the National Bank of Ethiopia quarterly Liquidity Report within three weeks after the end of each month prepared in the manner shown in the attached table which shall be part of these directives.

4. Scope of Application

These directives shall be applicable only on micro-finance institutions that have re-registered with the National Bank of Ethiopia in accordance with article 10 of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996 and micro-finance institutions whose total deposits equal or exceed birr 1 (one) million.

5. Effective Date

These directives shall come into force as of the 1st day of May 2002.

**Teklewold Atnafu
Governor
National Bank of Ethiopia**

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Liquidity Report

Reporting Institution: _____

Period Covered: _____

| | Amount |
|--|--------|
| 1. Liquid Assets (Total) | |
| 1.1 Cash | |
| 1.2 Deposit with Banks and/or Micro-finance Institutions | |
| 1.3 Treasury bills | |
| 1.4 Other (specify) | |
| 2. Total Deposits | |
| 3. Ratio of Liquid Assets to Total deposits(%) | |

**Licensing and Supervision of the Business of
Micro-financing Institutions**

Directive No. MFI/16/2002

Minimum Capital Ratio to be

Maintained by Micro-finance Institutions

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and by article 25 of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

2. Definitions

- 2.1 “Deposits” shall mean any regular or irregular savings which may be withdrawn partially or totally at any time by the account holder;
- 2.2 “Savings” shall mean non-withdrawable mandatory or regular savings of members of a micro-financing institution;
- 2.3 “Total Capital” shall mean the sum of paid-up capital, donated capital, retained earnings and any other free reserves of a Micro-finance institution;
- 2.4 “Total Deposits” shall mean the sum of “savings” and “deposits.”

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- 2.5 “Total Risk-weighted Assets” shall mean assets of a Micro-finance institution determined by weighting each asset item by the weight assigned to it and aggregating

the result so obtained in accordance with the table attached herewith which shall be a part hereof.

3. Minimum Requirement

3.1 A Micro-finance Institution shall maintain at all times a minimum capital ratio of 12% (twelve percent) computed as a ratio of total capital to total risk-weighted assets.

3.2 For the purpose of monitoring compliance with the requirement set out under 3.1 herein above, each micro-finance institution shall submit to the Supervision Department of the National Bank of Ethiopia a quarterly Capital Position report within three weeks after the close of each quarter in the manner shown in the attached table.

4. Scope of Application

The provisions of these directives shall be applicable only on Micro-finance Institutions which have re-registered with the National Bank of Ethiopia in line with article 10 of the Licensing and Supervision of the Business of Micro-financing Proclamation No. 40/1996 and micro-finance institutions whose total deposits equal or exceed birr 1 (one) million.

5. Effective Date

These directives shall come into force as of the 1st day of May 2002.

Teklewold Atnafu
Governor
National Bank of Ethiopia

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CAPITAL POSITION REPORT

Reporting Institution: _____

Period Covered: _____

| Amount | Assets Risk-weighted | Amount | Weight (%) |
|---|---------------------------------|---------------|-------------------|
| | (a) | (b) | |
| c= (a) x (b) | | | |
| Cash on hand | | 0 | |
| Deposits with banks | | | |
| - With NBE | | 0 | |
| - With other banks | | 20 | |
| Prepayments | | 0 | |
| Receivables | | 100 | |
| Claims on Government | | | |
| - Federal Government | | 0 | |
| - Regional Government | | 20 | |
| Loans and Advances less provisions | | | |
| - Fully secured by cash, - Federal Government securities of guaranteed by Federal Government | | 0 | |

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| | |
|--|--------|
| - Fully secured / guaranteed by Regional government | 20 |
| - All other loans and advances | 100 |
| <hr/> | |
| Investments | 100 |
| <hr/> | |
| Fixed Assets less Depreciation | 100 |
| <hr/> | |
| Total Risk-weighted assets | xxxxxx |
| <hr/> | |
| | |
| Total Capital | xxxxxx |
| <hr/> | |
| | |
| Ratio of Total Capital to Risk-weighted Assets (%) | xxxxxx |
| <hr/> | |
| <hr/> | |

Licensing and Supervision of the Business of

Micro-financing Institutions

Directive No. MFI/17/2002

Limits on Loans, Repayment Period and

Provisioning Requirement

1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the power vested in it by article 41 of the Monetary and Banking Proclamation and article 25 of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

2. Definition

- 2.1 "Deposits" shall mean any regular or irregular savings which may be withdrawn partially or totally at any time by the account holder;
- 2.2 "Non-performing Loans" for the purpose of these directives shall mean outstanding loans and advances of a micro-financing institution that are past due for more than 90 days;
- 2.3 "Saving " shall mean non-withdrawable mandatory or regular savings of members of micro-financing institution;
- 2.4 "Total Capital" shall mean the sum of paid-up capital, donated capital, retained earnings and any other free reserves of a micro-finance institution;
- 2.5 "Total Deposits" shall mean the sum of "savings" and "deposits"

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3. Limitations on Loans and Repayment period

- 3.1 A micro-finance institution may grant fresh loans exceeding the ceiling prescribed by Directive No. MFI/05/96. However, the aggregate amount of such loans extended in any one year shall not exceed 20% (twenty percent) of the total disbursement of the micro-finance institution in the preceding year.
- 3.2 The maximum loan amount extended to **any one borrower** in line with article 3.1 herein above shall not exceed 0.5% (half a percent) of the total capital of a micro-finance institution.
- 3.3 The maximum repayment period for the loans extended in line with article 3.1 and 3.2 herein above shall not exceed 5 (five) years.

3.4 All other loans of a micro-finance institution (a) extended to any one borrower shall not at any one time exceed Birr5,000 (five thousand birr) and (b) repayment period of such loans shall not exceed 24 (twenty four) months.

4. Lending to Non-members and Type of Collateral

Micro-finance institutions shall predominantly make credit available on the basis of group guarantee and to borrowers who have joined a membership arrangement. However, they may also lend on a limited scale to non-members on the basis of physical or other collateral.

5. Minimum Provisioning Requirement

5.1 For the purpose of provisioning, Micro-finance institutions shall classify non-performing loans into the following three categories on the basis of number of days past due.

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| <u>Category</u> | <u>Number of days Past due</u> |
|-----------------|------------------------------------|
| i) Substandard | 91-180 days |
| ii) Doubtful | 181-365 days |
| iii) Loss | Over 365 days |

5.2 Micro-finance institutions shall hold the following minimum provisions against each category of non-performing loans.

| <u>Category</u> | <u>Minimum Requirement</u> |
|-----------------|---------------------------------|
| i) Substandard | 25% of the outstanding balance |
| ii) Doubtful | 50% of the outstanding balance |
| iii) Loss | 100% of the outstanding balance |

5.3 Micro-finance institutions shall deduct from the outstanding balance of non-performing loans any deposits held with the institutions as security against the loans before making the provisions set out under article 5.2 herein above.

6. Scope of Application

The provisions of article 3(1), 3(2), 3(3) and article 5 of these directives shall be applicable only on micro-finance institutions re-registered with the National Bank of Ethiopia according to article 10 of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996 and micro-finance institutions and whose total deposits equal or exceed birr 1 (one) million. The remaining articles of the directives shall be applicable on all micro-finance institutions licensed in accordance with Proclamation No. 40/1996.

7. Effective Date

These directives shall come into force as of the 1st day of May 2002.

Teklewold Atnafu
Governor of national bank

Directive No. MFI/19/2007

Licensing and Supervision of the
Business of Micro-financing Institutions
Interest Rates Applicable to Micro-financing Institutions

1. Issuing Authority

This directive is issued by National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and Article 12(2)(f) of the Licensing and Supervision of Microfinancing Institutions Proclamation No. 40/1996.

2. Short Title

This Directive may be cited as "Interest Rates applicable to Micro-financing Institutions Directive No. MFI/19/2007".

3. Application of Directive No. NBE/INT/10/2007

Directive No. NBE/INT/10/2007 shall apply to all micro-financing institutions.

In applying Directive No. NBE/INT/10/2007 the word "bank(s)" shall be replaced by "micro financing institution(s)".

4. Repeal

Directive No. MFI/13/2002 is hereby repealed and replaced by this directive.

5. Effective Date

This Directive shall be effective as of the first day of August 2007.