NEWSLETTER

21 March 2019

The Central Bank of Nigeria Improves SME's Access to Finance

Purpose of Microfinance Banks in Nigeria

Micro finance Banks (MfBs) were established to enhance the provision of diversified microfinance services on a long-term, sustainable basis for the poor and low income groups. The Central Bank of Nigeria "CBN" in 2005 introduced the MFB Policy, Regulatory and Supervisory Framework for MfBs to increase the financial inclusion rate, improve access to financial services for the active, rural and poor and pursue poverty eradication.

MFBs' Challenges and Failure

MfBs recorded a failure due to low capital, scarce, uncertain supply of funding and the low interest rates some MfBs charged due to their perception that microfinance is a philanthropic activity. Many MFBs in Nigeria were found to have suffered total erosion of their capital base and dissipation of depositors' funds resulting from very high levels of non-performing loans and insider abuse. The CBN had to revoke the operating licenses of 101 Microfinance Banks by December, 2010.

High Interest Loan Charges of Some MfBs

The Guide to Charges by Banks and other Financial Institutions 2017 provides that the interest rates on loans issued by MfBs are negotiable. As a result, some MfBs charge very high interest rates because of low funding levels and high administrative cost thereby defeating the aim of the creation of MFBs. The CBN Governor, Godwin Emefiele, at a press briefing in Lagos on December 9 2018 said that "…microfinance banks in the country are charging outrageous interest rates".

Review of the Minimum Capital Requirement of MfBs in Nigeria

The CBN, to address the challenge of inadequate capital base of MfBs and ensure continued operations of MfBs in rural and unbanked areas, by circular dated 7th March, 2019, divided MfBs into Tier 1 and Tier 2 and reviewed the minimum capital of Tier 1 Unit MfBs, Tier 2 Unit MfBs, State MfBs and National MfBs to ₦200million, ₦50million, ₦1billion and ₦5billion respectively. Tier 1 Unit MfBs shall meet ₦100million of its capital requirement by April 2020 and ₦200million by April 2021, Tier 2 Unit MfBs shall meet ₦35million by April 2020 and ₦50million by 2021, State MfBs shall meet ₦500million by 2020 and ₦1billion by 2021 and National

s

TONBOFA
Law Practice
CONSULTING | LEGAL ADVISORY | LEGAL REPRESENTATIVE

51, Adeshiyan Street, Ilupeju, Lagos State, Nigeria.

73, Stoneville House, Yenuzie- Epie Road, Yenagoa, Bayelsa State, Nigeria.

Tel: 012954080, 08022230802
info@tonbofa.com
www.tonbofa.com

MfBs shall meet ₦3.5billion by 2020 and ₦5billion by 2021. The CBN encouraged MfBs to engage in mergers and acquisitions to be able to meet up with this new capital requirement.

The Nigeria Incentive-Based Risk Sharing System for Agricultural Lending Micro Finance Bank (NMFB)

The CBN through the Bankers' Committee, the Nigeria Incentive-Based Risk Sharing System, the Nigerian Postal Service unveiled the NMFB on 1st February 2019 to offer loans to the public at an interest rate of 5%. The NMFB is another CBN mechanism aimed at boosting competitive interest rates amongst MfBs.

Financial Technology Companies (Fintechs) and their relationship with MfBs

The CBN introduced the Revised National Financial Inclusion Strategy (NFIS) in October 2018 with emphasis on MfBs as agents for enhancing financial inclusion and mobile money/Bank Agents aimed at bringing financial services closer to the people. There is now an increase in the number of Fintechs providing online financial services such as loans to SMEs like MfBs do. These Fintech Companies are considered finance companies under the Guideline for Finance Companies in Nigeria 2014(Revised). In order to meet online needs of customers, the MfBs may have to provide digital financial services or partner with Fintechs.