የኢትዮጵያ ብሔራዊ ባንክ
NATIONAL BANK OF ETHIOPIA
አዲስ አበባ / ADDIS ABABA

FIS/MFISD/041/ 2023
January 17, 2023

All Microfinance Institutions
Ethiopia

Subject: Directive No. MFI/36/2023

Enclosed herewith, please find "Minimum Paid–up Capital and Capital Adequacy Requirements of Microfinance Institutions Directive No. MFI/36/2023'' for your information and strict implantation.

Sincerely Yours,

Merga wakweya
Director, Microfinance Institution Directorate

CC:

- H.E. The Governor
- Vice Governors
- Senior Advisor
- Advisors
- All Directorates
  National Bank of Ethiopia
- Association of Ethiopia Microfinance Institution
  Addis Ababa

LICENSING AND SUPERVISION OF MICROFINANCE BUSINESS

Minimum Paid-up Capital and Capital Adequacy Requirement of Microfinance Institutions Directive No. MFI/36/2023

(3rd Replacement)

Whereas, there is a need to raise the minimum paid-up capital of microfinance institutions operating in the country so as to improve their capacity to serve the growing needs of their customers;

Whereas, it is critical to strengthen the microfinance institutions' capital position in order to ensure their viability, resiliency, and sustainability in a dynamic environment;

Whereas, it is necessary to protect depositors', creditors', and the general public's interests, as well as to foster public trust in microfinance institutions;

Now therefore, pursuant to the authority vested in it under articles 14 (1), 14 (2/b) and 34 (2) of Micro financing Business Proclamation No.626/2009 (as amended by Proclamation No. 1164/2019), the National Bank of Ethiopia has issued this Directive.

1. Short Title

This Directive may be cited as "**Minimum Paid-up Capital and Capital Adequacy Requirements of Microfinance Institutions Directive No. MFI/36/2023**."

2. Definition

2.1. "**existing microfinance institution**" refers to a microfinance institution licensed by the National Bank before the effective date of this Directive;

2.2. "**total capital**" means the sum of paid-up capital, donated capital, retained earnings and any other free reserves of a micro-finance institution;

2.3. "**total risk-weighted assets**" means 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 part hereof;

2.4. **"microfinance institution in the process of share subscription"** refers to a

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microfinance institution under formation that is in the process of selling shares to the public as per approval obtained from the National Bank and has not conducted its subscribers meeting as of the effective date of this Directive;

2.5. **"microfinance institution in the process of licensing"** refers to a microfinance institution under formation that collected a minimum paid-up capital of Birr 10 million from its shareholders, conducted its subscribers meeting and submitted its final application to the National Bank to get microfinance business license as of the effective date of this Directive;

2.6. **"microfinance institution under formation"** refers to a microfinance institution in the process of share subscription or a microfinance institution in the process of licensing;

2.7. **"National Bank"** refers to the National Bank of Ethiopia;

3. Scope of Application

The provisions of this Directive shall be applicable to an existing microfinance institution, a microfinance institution in the process of share subscription and a microfinance institution in the process of licensing.

4. Minimum Paid-up Capital

4.1. The minimum initial paid-up capital required to obtain a microfinance business license shall be **Birr 75 million** (seventy five million Birr), which shall be fully paid in cash and deposited in a bank (s) in the name and to the account of the microfinance institution under formation.

5. Transitory Provision

Notwithstanding with the provision of sub-article 4.1 of this Directive:

5.1. An existing microfinance institution whose paid-up capital is below Birr 75 million (seventy five million Birr) shall raise its paid-up capital to the said amount by end of January 2028; such microfinance institution is required to submit action plan for capital increase to the National Bank within 3 (three) months after the effective date of this Directive.

5.2. A microfinance institution in the process of licensing is required to comply with sub-article 4.1 of this Directive within 7 (seven) years after commencement of

microfinance operation and shall submit its action pan towards this end.

5.3. A microfinance institution in the process of share subscription that held the subscribers meeting and submitted its business license application in 6 (six) months after the effective date of this Directive shall be permitted to get microfinance business license with a minimum paid-up capital of Birr 10 million (ten million Birr). However, such microfinance institution shall be required to comply with the sub-article 4.1 of this Directive within 7 (seven) years after commencement of microfinance operation and shall submit its action plan towards this end.

6. Minimum Capital Adequacy Ratio

6.1. A microfinance institution shall maintain at all times a minimum capital adequacy ratio of **12%** (twelve percent) computed as a ratio of total capital to total risk-weighted assets in the manner specified in the table attached with this Directive which is part hereof.

6.2. For the purpose of monitoring its compliance with the requirement set out under article 6.1 herein above, each microfinance institution shall submit to the National Bank a quarterly capital position report within 4 (four) weeks after the close of each quarter in the manner shown in the attached table.

7. Sanctions

7.1. If a licensed microfinance institution fails to comply with the required minimum capital requirement of Birr **75 million** (seventy five million Birr) as specified under sub-article 4.1 of this Directive, the National Bank may:

7.1.1. put the microfinance institution under receivership and appoint a receiver in line with relevant provisions of Microfinance Business Proclamation No. 626/2009 (as amended by Proclamation No. 1164/2019);

7.1.2. require the appointed receiver to dissolve the microfinance institution through merger with another microfinance institution; and/or

7.1.3. take any other measures that it considers fit.

7.2. Notwithstanding the provisions stated under 7.1 hereinabove, a licensed microfinance institution upon the event of seeing difficulty in meeting the minimum paid-up capital as required in this Directive may undertake voluntary merger and acquisition

transactions with another microfinance institution before the elapse of the stated period under sub-article 5.1, 5.2, and 5.3 of this Directive. However, such transactions shall be made after securing consent and approval from the National Bank.

8. Repeal

Minimum Capital Requirement Directives No. MFI/27/2015 is hereby repealed and replaced by this Directive.

9. Effective Date

This Directive shall be effective as of the **16th day of January 2023**.

Yinager Dessie (PhD)
Governor

Capital Adequacy Position Report

Name of Microfinance Institution: _____

Period Covered: _____

No.	Assets:	Amount (A)	Weight (%) (B)	Amount of Risk-Weighted Asset C= (A) x (B)
1	Cash on hand		0	
2	Deposits with banks/MFIs:			
2.1	- With NBE		0	
2.2	- With other banks/MFIs		20	
3	Prepayments		0	
4	Receivables		100	
5	Other Assets		100	
6	Claims on Government:			
6.1	- Federal Government		0	
6.2	- Regional Government		20	
7	Loans and advances less provisions			
7.1	- Fully secured by cash, Federal Government securities or guaranteed by Federal Government		0	
7.2	- Fully secured/guaranteed by Regional Government		20	
7.3	- All other loans and advances		100	
8	Investment		100	
9	Fixed assets less depreciation		100	
	Total risk weighted assets (D)			
	Total capital (E)			
	Total capital to risk weighted assets ratio (%) (F)=(E/D)*100			