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NATIONAL BANK OF ETHIOPIA

LICENSING AND SUPERVISION OF
THE BUSINESS OF MICROFINANCE INSTITUTIONS
Minimum Capital Requirement Directives No. MFI/ 27 /2015

Whereas, there is a need to ensure solvency of microfinance institutions and enhance gradual transformation of the sector from donation based operation to stable equity base;

Whereas, promoting strong and viable micro-finance sector in the country is essential;

Whereas, it has been found necessary to protect the interest of depositors, creditors and the public in general and promote public confidence in microfinance institutions;

Now therefore, pursuant to the authority vested in it under articles 14 (1), 14 (2/b) and 27 (2) of Microfinance Business Proclamation No. 626/2009, the National Bank of Ethiopia has issued these directives.

PART ONE

GENERAL

1. Short Title

These directives may be cited as “Minimum Capital Requirements Directives No. MFI/27/2015”.

2. Definition

2.1 “**Total Capital**” means the sum of paid-up capital, donated capital, retained earnings and any other free reserves of a micro-finance institution;

2.2 “**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.

3. Scope of Application

The provisions of these directives shall be applicable to all microfinance institutions.

PART TWO

MINIMUM INITIAL PAID UP CAPITAL REQUIREMENTS

4. Minimum Paid-up Capital

4.1 The minimum initial paid up capital required to obtain a micro- financing business license shall be Birr 10,000,000 (Birr ten million), which shall be fully paid in cash and deposited in a bank in the name and to the account of the microfinance institution under formation.

4.2 Existing micro-finance institutions whose paid-up capital is below Birr 10,000,000 (Birr ten million) shall raise their paid-up capital to the said amount within seven years from the effective date of these directives at a minimum in line with the following timeframe.

- a) Birr one million by June 30, 2015;
- b) Birr 1.3 million by June 30, 2016;
- c) Birr 1.6 million by June 30, 2017;
- d) Birr two million by June 30, 2018;
- e) Birr five million by June 30, 2019;
- f) Birr seven million by June 30, 2020;
- g) Birr ten million by June 30, 2021.

4.3 The National Bank of Ethiopia shall cause merger or liquidation of any micro-finance institution that fails to meet the requirement specified under article 4.2 herein above.

PART THREE

5. Minimum Capital Adequacy Ratio

- 5.1 A micro-finance 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 these directives which is part hereof.
- 5.2 For the purpose of monitoring compliance with the requirement set out under article 5.1 herein above, each micro-finance institution shall submit to 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.

PART FOUR

MISCELLANEOUS PROVISIONS

6. Repeal

Minimum Capital Requirement Directives No. MFI/25/2013 is hereby repealed and replaced by these directives.

7. Effective Date

These directives shall be effective as of the 26th day of January 2015.

CAPITAL POSITION REPORT

Reporting Institution: _____

Period Covered: _____

Assets	Amount (a)	Weight (%) (b)	Risk-weighted Amount © =(a) x (b)
Cash on hand		0	
Deposits with banks/MFIs			
- With NBE		0	
- With other banks/MFIs		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 or guaranteed by Federal Government		0	
- Fully secured/guaranteed by Regional Government		20	
- All other loans and advances		100	
Investments		100	
Fixed Assets Less Depreciation		100	
Total Risk Weighted Assets	xxxxxx	xxxxxx	
Total Capital			
Ratio of Total Capital to Risk Weighted Assets (%)			

