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NATIONAL BANK OF ETHIOPIA
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FIS/MFISD/287/2021

August 25, 2021

All Microfinance Institutions

Ethiopia

Subject: Directive No. MFI/32/2021

Enclosed herewith, please find “Licensing and Authorization of Interest Free Microfinancing Business Directive No. MFI/32/2021” for your information and strict implementation.

Sincerely yours,

Asfaw Abera

Director, Microfinance Institutions Supervision Directorate



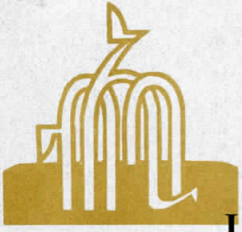
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- ☞ H. E. The Governor
- ☞ Vice Governors
- ☞ Senior Advisor
- ☞ Advisors
- ☞ All Directorates

National Bank of Ethiopia

- ☞ Association of Ethiopian Microfinance Institutions

Addis Ababa



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NATIONAL BANK OF ETHIOPIA
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**LICENSING AND SUPERVISION OF THE BUSINESS OF
MICROFINANCE INSTITUTIONS**

**Licensing and Authorization of Interest Free Microfinancing Business
Directive No. MFI/32/2021**

Whereas, interest free microfinancing business has to be promoted for greater financial inclusion;

Whereas, interest free microfinancing business needs to be carried out in a safe and sound manner;

Whereas, it is essential to establish clear, objective and transparent requirements for licensing and authorization of interest free microfinancing business;

Now, therefore, in accordance with article 31 (1 & 2) of the Microfinancing Business Proclamation No. 626/2009 as amended by the Microfinancing Business (Amendment) Proclamation No. 1164/2019, the National Bank of Ethiopia has issued this Directive.

1. Short Title

This Directive may be cited as “**Licensing and Authorization of Interest Free Microfinancing Business Directive No. MFI/32/2021**”

2. Definitions

For the purpose of this Directive, unless the context provides otherwise:

- 2.1. “**interest free microfinancing business**” refers to microfinancing business in which mobilization or advancing funds is undertaken in a manner consistent with Islamic law or Sharia principles;
- 2.2. “**interest free microfinance institution**” means a microfinance institution licensed by the National Bank to undertake only interest free microfinance business;
- 2.3. “**interest free microfinancing window**” refers to a unit within a conventional microfinance institution exclusively offering interest free microfinancing services;



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- 2.4. “**microfinance institution**” means a company licensed by the National Bank to undertake microfinancing business;
- 2.5. “**National Bank**” means the National Bank of Ethiopia; and
- 2.6. “**Person**” refers to natural or juridical person.

3. Scope

This Directive shall apply to all microfinance institutions in Ethiopia engaged in interest free microfinancing business.

4. Licensing and Authorization of Interest Free Microfinancing Business

- 4.1. Persons who intend to establish an interest free microfinance institution shall apply to the National Bank for a license in line with Directive No. MFI/23/2013.
- 4.2. A microfinance institution shall obtain a written authorization from the National Bank to carry on interest free microfinancing window.
- 4.3. A microfinance institution which desires to obtain an authorization to carry on interest free microfinancing window shall submit a duly completed application in the prescribed format together with documents specified below:
 - a) a report on resource mobilization and use;
 - b) planned balance sheet structure for interest free microfinancing window and the whole microfinance institution;
 - c) maximum share of planned interest free microfinancing business in total consolidated balance sheet of the microfinance institution;
 - d) risk management program for all interest free microfinancing window products;
 - e) a statement on availability of adequate capacity and facilities to run interest free microfinancing business;
 - f) accounting aspects, such as accounting policies to be followed and profit and loss sharing mechanisms;
 - g) evidence of financial strength as reflected in capital adequacy, asset quality, earnings capability, future earnings prospects, and current liquidity position and forecast for the next 12 months;
 - h) track records of adherence to prudential regulations, credit discipline, quality of customer services;
 - i) a statement on the convenience as well as the needs of the population of the area to be served by interest free microfinancing window;
 - j) methods of segregating the funds of interest free microfinancing window from all other businesses; and
 - k) such other information as may be required by the National Bank while processing the application.



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4.4. The National Bank shall evaluate the application for authorization of interest free microfinancing window in view of risk management, requirements of the Microfinancing Business Proclamation, applicable directives as well as other rules and regulations for authorization.

5. Prohibition

- 5.1. Microfinance institutions shall not alter maximum share of interest free microfinance window in their consolidated balance sheet without prior approval of the National Bank.
- 5.2. Failure to comply with sub-article 5.1 of this article may result in the closure of interest free microfinancing window.

6. Maintenance of Accounts and Financial Statements by Interest Free Microfinancing Window

A microfinance institution engaged in interest free microfinancing window shall:

- 6.1. keep separate books of accounts in respect of interest free microfinancing window and ensure proper maintenance of records for all transactions for segregation of funds.
- 6.2. report its interest free microfinancing window activities every quarter within a month period of time after the close of each quarter to the Microfinance Institutions Supervision Directorate of the National Bank.

7. Compliance with Regulatory and Supervisory Requirement

- 7.1. In carrying out interest free microfinancing business, microfinance institutions shall comply mutatis mutandis with all regulatory and supervisory requirements except the National Bank's Directives on interest rate.
- 7.2. Board of directors of a microfinance institution engaged in interest free microfinancing business shall develop detail policies and procedures on Shariah oversight.

8. Transitory Provision

Any person engaged in interest free microfinancing business before the coming into effect of this Directive shall comply with the provisions of this Directive within six months after the effective date of the Directive.

9. Effective Date

This Directive shall enter into force as of the 26th day of August 2021.

