

Requirements for Relicensing a Microfinance Institution as a Bank (Directive No. 297/2020)



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National Bank of Ethiopia

August 15, 2020



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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

FIS/BSD/687/2020

August 17, 2020

- All Banks
- All Microfinance Institutions
Ethiopia

Dear Sir/Madam;

Subject: Issuance of Directive No. 297/2020

Attached, please find “Requirements for Relicensing a Microfinance Institution as a Bank
Directive No. 297/2020” for your information and implementation.

Sincerely yours,

Frezer Ayalew
Director, Banking Supervision Directorate



CC:

- H.E. The Governor
- The V/Governor, Financial Institutions Supervision
- Senior Advisor
- Advisor
- All Directorates
- National Bank of Ethiopia
- Ethiopian Banker's Association
- Association of Ethiopian Microfinance Institutions
Addis Ababa



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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

LICENSING AND SUPERVISION OF BANKING BUSINESS

Requirements for Relicensing a Microfinance Institution as a Bank
Directive No. 297/2020

Whereas, a microfinance institution relicensed as a bank has to operate in a safe and sound manner so as to ensure public confidence;

Whereas, it is necessary to put in place a regulatory framework for relicensing a microfinance institution as a bank;

Now, therefore, in line with the powers vested in it by sub-articles 11(2) and 59(2) of Banking Business Proclamation No. 592/2008 as amended by Banking (amendment) Proclamation No. 1159/2019 and sub-articles 21(1) and (2), and 27(2) of Micro-financing Business Proclamation No. 626/2009 as amended by Microfinance Business (amendment) Proclamation No. 1164/2019, the National Bank of Ethiopia has issued this Directive.

1. Short Title

This Directive may be cited as “**Requirements for Relicensing a Microfinance Institution as a Bank Directive No. 297/2020**”.

2. Definitions

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

- 2.1 “**bank**” means a company licensed by the National Bank to undertake banking business;
- 2.2 “**CAMEL rating**” means rating of capital adequacy, asset quality, management competence, earnings and liquidity of a microfinance institution ranging from “1” to “5” (“5” being the best rating, while “1” the worst);
- 2.3 “**chief executive officer**” means a person who, by whatever title he/she may be referred to, is primarily responsible for the day-to-day management of the affairs of a microfinance institution;
- 2.4 “**microfinance institution**” means a company licensed to engage in micro-financing business in rural and urban areas and other activities specified under sub-article 3(2) of Proclamation No. 626/2009 as amended by Microfinance Business (amendment) Proclamation No. 1164/2019;
- 2.5 “**National Bank**” means the National Bank of Ethiopia;
- 2.6 “**regional government**” includes bureaus, municipality and other offices organized under a regional government or Addis Ababa or Dire Dawa City Administration, excluding state owned enterprises;



- 2.7 “senior executive officer” means a person who, by whatever title he/she may be referred to, is deputy to the chief executive officer or holds equivalent position to the deputy chief executive officer of a microfinance institution.

3. Scope of the Directive

This Directive shall apply to a microfinance institution that desires to be relicensed as a bank.

4. Specific Requirements

- 4.1 A microfinance institution planning to be relicensed as a bank shall present signed minutes of shareholders and amended memorandum and articles of association along with attendance sheet attesting their approval of the plan of the microfinance institution to be relicensed as a bank to the Banking Supervision Directorate of the National Bank.
- 4.2 Whether the microfinance institution to be relicensed as a bank meets the minimum paid up capital requirement shall be certified by an external audit report of the latest financial year.
- 4.3 A regional government shall not hold shares more than 70% (seventy percent) in a microfinance institution relicensed as a bank.
- 4.4 Safety and soundness of a microfinance institution to be relicensed as a bank shall be evidenced by a composite CAMEL rating of at least “3” in the on-site examination report produced within a year preceding the date of application of a microfinance institution to be relicensed as a bank.
- 4.5 A microfinance institution to be relicensed as a bank shall state in its mission statement, internal bylaws and business model about the provision of microfinance services as one of its core services and put in place the required resources and systems towards that effect.
- 4.6 A microfinance institution to be relicensed as a bank shall organize and structure a function that will handle the microfinance as one of its major lines of business.
- 4.7 If a microfinance institution relicensed as a bank fails to carry on the microfinance business properly, the National Bank may suspend any of its banking services or revoke the banking business license until the shortcomings with the microfinance services are adequately addressed.
- 4.8 As stated under sub articles 4.5-4.7 above, a microfinance institution relicensed as a bank in line with the provisions of this Directive shall continue to provide the microfinance services without compromising the current services as part of its banking products, and the applicant shall produce a written commitment towards that effect.
- 4.9 The following provisions of the Directive SBB/56/2013 shall not apply to a microfinance institution to be relicensed as a bank:

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- a) sub-articles 5.1.2 (organizers' meeting), 5.1.3 (prospectus), 5.1.4 (request to open blocked subscription account) during pre-application phase: and
 - b) sub-articles 5.2.2 (submission of certificate of deposits), 5.2.3 (signed minutes of subscribers' meeting), 5.2.4 (founders list to be published on newspaper) during application phase.
- 4.10** Except for appointment as head of international banking wing, experience of chief and senior executive officers in a microfinance institution to be relicensed as a bank, may be considered as equivalent to a banking experience during their fit and proper assessment for appointment as chief or senior executive officer only in the same or any other relicensed bank.
- 4.11** A microfinance institution relicensed as a bank shall open "reserve", "payment and settlement" as well as "issue" accounts with the National Bank before it commences banking operation.
- 4.12** A sub-branch of a microfinance institution relicensed as a bank may process loans and advances.
- 4.13** All other banking regulatory provisions not stated in this Directive shall equally apply to a microfinance institution relicensed as a bank with no discrimination.

5. Transitory Provision

A microfinance institution relicensed as a bank in line with this Directive, prior to commencement of operation as a bank, shall comply with the provisions of all the relevant laws and National Bank directives within 24 months effective from the date a microfinance institution is relicensed as a bank. To this end, a microfinance institution relicensed as a bank shall submit to the National Bank a comprehensive action plan towards this effect.

6. Effective Date

This Directive shall enter into force as of the 15th day of August 2020.


Yinager Dessie (PhD)
Governor

