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## REVIEW OF MINIMUM CAPITAL REQUIREMENTS FOR MICROFINANCE BANKS IN NIGERIA

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On 22 October 2018, the Central Bank of Nigeria (CBN) initiated a process for the recapitalisation of Microfinance Banks in Nigeria. In furtherance of this, the CBN issued a circular dated 7 March 2020 (Circular) to ensure continued operations of microfinance banks in the rural, unbanked and underbanked areas that contribute to the economy. Premised on this, Unit Microfinance Banks were divided into two tiers:

1. Tier 1 Unit Microfinance Bank shall operate in the urban and high-density banked areas of the society; and
2. Tier 2 Unit Microfinance Bank have their sphere of operations in the rural, unbanked and underbanked areas.

Microfinance banks in Nigeria occupy a very strategic position in the financial inclusion of the unbanked and the underbanked. They provide the economically active poor access to financial services such as micro-savings, micro-credits, and other financial products, which to a large extent fosters an appreciable and sustainable economic development in the rural areas. Hence, the need for the recapitalisation to strengthen the financial base of the MFBs.



## The New Minimum Capital Requirements

The Circular revised the minimum capital requirements for the categories of microfinance banks as follows:

1. Tier 1 Unit Microfinance Bank N200,000,000 (Two Hundred Million Naira)
2. Tier 2 Unit Microfinance Bank N50,000,000 (Fifty Million Naira)
3. State Microfinance Bank N1,000,000,000 (One Billion Naira)
4. National Microfinance Bank N5,000,000,000 (Five Billion Naira)

The recapitalisation process requires the different categories of microfinance banks to attain certain thresholds within certain timelines. The thresholds and timelines required to be complied with are as follows:

1. Tier 1 Unit Microfinance Banks shall meet a N100 million capital threshold by April 2020 and N200 million by April 2021;
2. Tier 2 Unit Microfinance Banks shall meet a N35 million capital threshold by April 2020 and N150 million by April 2021;
3. State Microfinance Banks shall increase its capital to N500 million by April 2020 and N1 billion by April 2021; and
4. National Microfinance Banks shall hold a capital of N3.5 billion by April 2020 and N5 billion by April 2021.

## COVID-19 pandemic and the impact on the Recapitalisation

As a result of the COVID- 19 pandemic and its impact on economic activities, the CBN has revised the deadlines for compliance with the minimum capital requirements for Microfinance Banks (MFBs) in Nigeria by a circular dated 29 April 2020.

In this circular, the CBN extended the deadlines for compliance with the revised minimum capital requirements for all categories of MFBs by one year in the following manner:

1. Tier 1 MFBs operating in urban and high-density banked areas are expected to meet the N100 million capital threshold by April 2021 and N200 million by April 2022;
2. Tier 2 MFBs operating in rural, unbanked and under banked areas shall meet the N35 million capital threshold by April 2021 and N150 million by April 2022;
3. State MFBs shall increase their capital to N500 million by April 2021 and N1 billion by April 2022; and
4. National MFBs are expected to meet minimum capital of N3.5 billion capital by April 2021 and N5 billion by April 2022.

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