

# LICENSING REQUIREMENTS AND REGULATORY FRAMEWORK FOR MICROFINANCE BANKS



Originally, microfinance banks were established to promote financial inclusion by providing accessible credit, savings and other financial services to low-income individuals and micro-entrepreneurs who were underserved by the commercial bank system<sup>[JA1]</sup>. Hence, the objective of the initiative was to stimulate economic activity, reduce poverty, and empower underserved communities.

However, in recent years, the rise of financial technology (fintech) platforms has significantly expanded the reach and delivery of banking services. Under prevailing regulatory frameworks, any fintech platform that accepts deposits from the public and facilitates withdrawals is engaging in core banking activities and therefore, must obtain an operational license from the Central Bank of Nigeria, the primary regulator of the industry.

Consequently, many fintech and credit-focused startups in Nigeria have opted to partner with, acquire, or operate under existing microfinance bank licenses as a means of legitimising their operations. This approach allows them to comply with regulatory requirements, leverage the payment and settlement infrastructure of the formal banking sector in addition to their personalised product offerings without undergoing the more capital-intensive process of obtaining a commercial banking or mobile money operating license.

Against this background, this article reviews the key licensing requirements and regulatory framework under the CBN's Guidelines for Microfinance Banks in Nigeria (The Guidelines) as follows:

## **CAPITAL REQUIREMENTS**

- Microfinance banks operating in rural, unbanked and under banked areas (Tier 2) – N50 million.
- Microfinance banks operating in urban and high density banked areas (Tier 1) – N200 million.
- State Microfinance banks – N1 billion.
- National Microfinance banks – N5 billion.

## **LICENSING REQUIREMENTS**

Application for microfinance bank (MFB) licence shall be in three (3) stages, namely:

- Pre-licensing Presentation
- Approval-in-Principle
- Final License

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<sup>[JA1]</sup>Microfinance banks are not informal though. They are just not as sophisticated.

## **STAGE 1 - REQUIREMENTS FOR PRE-LICENSING PRESENTATION**

Promoters and investors shall be required to make pre-licensing presentation on the business case of the proposed MFBs to the CBN before a formal application for licence. This is also applicable to investors acquiring an existing MFB.

## **STAGE 2 - REQUIREMENTS FOR GRANT OF APPROVAL-IN-PRINCIPLE (AIP)**

1. The promoters of MFBs shall be required to submit a formal application for the grant of licence addressed to the Governor of the Central Bank of Nigeria.
2. The application shall be accompanied by the following:
  - a. Evidence of payment of non-refundable application fee to the Central Bank of Nigeria;
  - b. Evidence of capital contribution made by each shareholder;
  - c. Evidence of minimum capital deposit in line with the provisions of section 4.2.7 of the Guidelines, to be verified by the CBN;
  - d. Evidence of name reservation with the Corporate Affairs Commission (CAC).
  - e. Detailed business plan or feasibility report which shall, at a minimum, include:
    - i. Objectives of the MFB;
    - ii. Justification for the application;
    - iii. Ownership structure in a tabular form indicating the name of proposed investor(s), profession/business and percentage shareholdings;
    - iv. Sources of funding of the proposed equity contribution for each investor;
    - v. Where the source of funding the equity contribution is a loan, such shall be a long-term facility of at least 7-year tenor and shall not be taken from the Nigerian banking system;
    - vi. Organizational structure, showing functional units, responsibilities, reporting relationships and grade of heads of departments/units;
    - vii. Schedule of services to be rendered;
    - viii. Five-year financial projection of the proposed bank indicating expected growth, profitability and the underlying assumptions; and
    - ix. Details of information technology requirements and facilities.

3. For institutional investors, promoters shall forward the following additional documents:
  - i. Certificate of Incorporation and certified true copies of other incorporation documents.
  - ii. Board resolution supporting the company's decision to invest in the equity shares of the proposed bank;
  - iii. Names and addresses (business and residential) of owners, directors and their related companies, if any;
  - iv. Audited financial statements & reports of the company and Tax Clearance Certificate for the immediate past 3 years.
4. Draft copy of the company's Memorandum and Articles of Association (MEMART). At a minimum, the MEMART shall contain the following information:
  - i. Proposed name of the MFB
  - ii. Objects clause
  - iii. Subscribers to the MEMART
  - iv. Procedure for amendment
  - v. Procedure for share transfer/disposal
  - vi. Appointment of directors
5. A written and duly executed under taking by the promoters that the bank will be adequately capitalized for the volume and character of its business at all times;
6. For regulated foreign institutional investors, an approval or a 'no objection letter from the regulatory authority in the country of domicile;
7. Shareholders' agreement providing terms for disposal/transfer of shares as well as authorization, amendments, waivers, reimbursement of expenses;
8. Statement of intent to invest in the bank by each investor;
9. Technical Services Agreement, where applicable;

10. Detailed Manuals and Policies covering:

- i. Credit Policy Manual;
- ii. Internal Audit Manual;
- iii. Asset/Liability Management Policy (ALM Policy);
- iv. Accounting policies and principles;
- v. Roles and responsibilities of the senior management officials responsible for financial management;
- vi. Treasury operations, including funds management, vouchers, payroll and procurement;
- vii. Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) Policy;
- viii. Enterprise-Wide Risk Management Framework;
- ix. Whistle Blowing Policy;
- x. Code of Ethics and Business Conduct.

11. Bank Verification Number (BVN) and Tax Clearance Certificate of each member of the Board and significant shareholders.

12. Duly signed resume and valid means of identification for proposed shareholders of proposed MFB;

13. Criteria for selecting board members;

14. Board composition, directors' duly signed resumes and valid means of identification. The size and composition of the board shall comply with the provision of the CBN Code of Corporate Governance for MFBs;

15. Consolidated statement of account showing the capital contribution for all shareholders;

16. Completed Fitness and Propriety Questionnaire; and sworn declaration of net worth executed by the proposed shareholders, directors and management personnel;

17. Any other information that the CBN may require from time to time.

Following the receipt of an application, the CBN shall communicate its decision to the applicant within ninety (90) days. Where the CBN is satisfied with the application, it shall issue an Approval-in-Principle (AIP) to the applicant.

The proposed bank shall not incorporate/register its name with the CAC until an AIP has been obtained from the CBN in writing, a copy of which shall be presented to the Corporate Affairs Commission (CAC) for registration.

### **STAGE3 - REQUIREMENTS FOR GRANTING OF FINAL LICENSE**

Not later than six (6) months after obtaining the AIP, the promoters of a proposed MFB shall apply for the grant of a final licence to the CBN, addressed to the Governor of the Central Bank of Nigeria. The application shall be accompanied by the following:

- i. Evidence of payment of non-refundable licensing fee to the Central Bank of Nigeria;
- ii. Certified true copy (CTC) of Certificate of Incorporation of the bank;
- iii. CTC of MEMART;
- iv. CTC of Form CAC 1.1 (Application for Registration of Companies);
- v. Evidence of location of Head Office (rented or owned) for the take-off of the business;
- vi. Schedule of changes, if any, in the Board, Management and Shareholding after the grant of AIP;
- vii. Evidence of ability to meet technical requirements and modern infrastructural facilities such as office equipment, computers, telecommunications, to perform the bank's operations and meet CBN and other regulatory requirements;
- viii. Copies of letters of offer and acceptance of employment in respect of the management team;
- ix. List of proposed top management staff and duly signed resume stating their qualification (including photocopies of academic and professional credentials), experience, records of accomplishments and valid means of identification;
- x. Comprehensive plan on the commencement of the bank's operations with milestones and timelines for roll-out of key payment channels; and
- xi. Board and staff training programme.

## **APPROVED SCOPE OF OPERATIONS**

Upon obtaining CBN's license, Microfinance Banks (MFBs) will be able to carry out the following operational activities:

1. Accept deposits from individuals, groups, and associations, including current, savings, and fixed deposit accounts;
2. Provide micro-loans to individuals, micro-enterprises, and groups;
3. Implement cooperative and group lending models; offer micro-leasing, hire purchase, and asset financing for small-scale equipment or tools;
4. Facilitate domestic fund transfers between customers and other banks;
5. Act as agents for remittance services subject to Central Bank of Nigeria (CBN) approval;
6. Partner with licensed insurers to distribute affordable micro-insurance products to low-income clients;
7. Issue and manage payment instruments such as debit or prepaid cards in collaboration with licensed payment service providers;
8. Operate mobile or digital banking platforms;
9. Issue domestic commercial papers subject to the approval of the CBN;
10. Any other permissible activity as may be approved by the CBN from time to time.

## **NON-PERMISSIBLE ACTIVITIES**

Notwithstanding its registration and license, MFBs are not permitted to engage in the following operation and activities:

- Acceptance of public sector (government) deposits except for the provision of payment services such as salary, gratuity, pension for employees of the various tiers of government, disbursement of financing programme by government agencies, groups and individuals for poverty alleviation on non-recourse basis provided it is in compliant with the provisions of the principles underpinning this model;
- Foreign exchange transactions; International commercial papers; International corporate finance; International electronic funds transfer;
- Clearing house activities except collection of money or proceeds of banking instruments on behalf of their customers, including clearing of cheques through correspondent banks;

- Collection of third-party cheques and other instruments for the purpose of clearing through correspondent banks;
- Leasing, renting, and sale/purchase of any kind with its directors, officers, employees or persons who either individually or in concert with their family members and beneficiaries own five per cent (5%) or more of the equity of the MFB, without the prior approval in writing of the CBN;
- Any activity other than those permitted as stated above or as may be prescribed by the CBN from time to time.

## CONCLUSION

Although the regulatory framework for microfinance banks in Nigeria, especially the requirements for license as set out in the foregoing looks cumbersome. However, the need to comply with the requirements set out in the Guidelines remains essential to ensure legitimacy, operational efficiency, and long-term growth. Also, for the same reasons, informed legal guidance can make all the difference between a smooth approval and costly setbacks.

**At Abe & Asotie LP, our extensive experience in navigating complex financial regulations and assisting clients to obtain banking licenses positions us to provide the clarity, structure, and foresight that any organization may need to confidently meet compliance obligations in Nigeria's dynamic banking sector.**



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