

## Directive No. MFI/17/2002

Licensing and Supervision of the Business of  
Micro-financing Institutions  
Limits on Loans, Repayment Period and Provisioning Requirement

### 1. Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the power vested in it by article 41 of the Monetary and Banking Proclamation and article 25 of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

### 2. Definition

"Deposits" shall mean any regular or irregular savings which may be withdrawn partially or totally at any time by the account holder;

"Non-performing Loans" for the purpose of these directives shall mean outstanding loans and advances of a micro-financing institution that are past due for more than 90 days;

"Saving " shall mean non-withdrawable mandatory or regular savings of members of micro-financing institution;

"Total Capital" shall mean the sum of paid-up capital, donated capital, retained earnings and any other free reserves of a micro-finance institution;

"Total Deposits" shall mean the sum of "savings" and "deposits"

### Limitations on Loans and Repayment period

A micro-finance institution may grant fresh loans exceeding the ceiling prescribed by Directive No. MFI/05/96. However, the aggregate amount of such loans extended in any one year shall not exceed 20% (twenty percent) of the total disbursement of the micro-finance institution in the preceding year.

The maximum loan amount extended to any one borrower in line with article 3.1 herein above shall not exceed 0.5% (half a percent) of the total capital of a micro-finance institution.

The maximum repayment period for the loans extended in line with article 3.1 and 3.2 herein above shall not exceed 5 (five) years.

All other loans of a micro-finance institution (a) extended to any one borrower shall not at any one time exceed Birr5,000 (five thousand birr) and (b) repayment period of such loans shall not exceed 24 (twenty four) months.

### 4. Lending to Non-members and Type of Collateral

Micro-finance institutions shall predominantly make credit available on the basis of group guarantee and to borrowers who have joined a membership arrangement. However, they may also lend on a limited scale to non-members on the basis of physical or other collateral.

### 5. Minimum Provisioning Requirement

5.1 For the purpose of provisioning. Micro-finance institutions shall classify non-performing loans into the following three categories on the basis of number of days past due.

| Category       | Number of days<br>Past due |
|----------------|----------------------------|
| i) Substandard | 91-180 days                |
| ii) Doubtful   | 181-365 days               |
| iii) Loss      | Over 365 days              |

Micro-finance institutions shall hold the following minimum provisions against each category of non-performing loans.

| Category       | Minimum Requirement             |
|----------------|---------------------------------|
| i) Substandard | 25% of the outstanding balance  |
| ii) Doubtful   | 50% of the outstanding balance  |
| iii) Loss      | 100% of the outstanding balance |

Micro-finance institutions shall deduct from the outstanding balance of non-performing loans any deposits held with the institutions as security against the loans before making the provisions set out under article 5.2 herein above.

#### Scope of Application

The provisions of article 3(1), 3(2), 3(3) and article 5 of these directives shall be applicable only on micro-finance institutions re-registered with the National Bank of Ethiopia according to article 10 of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996 and micro-finance institutions and whose total deposits equal or exceed birr 1 (one) million. The remaining articles of the directives shall be applicable on all micro-finance institutions licensed in accordance with Proclamation No. 40/1996.

#### 7. Effective Date

These directives shall come into force as of the 1st day of May 2002.

Teklewold Atnafu  
Governor of national bank