

## Directive No. MFI/18/2006

Licensing and Supervision of The Business of  
Micro-financing Institutions

Limit on Loans, Repayment Period and  
Provisioning Requirement

Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and by Article 25 of the Licensing and Supervision of the Business of Microfinancing Institutions Proclamation No. 40/1996.

### 2. Definitions

2.1 " The Bank" shall mean the National Bank of Ethiopia.

2.2 " Non performing loans" means outstanding credit facilities that are past due for more than 90 days beyond the agreed-upon repayment period.

2.3 "restructured loan" means a loan, which has been refinanced, rescheduled or otherwise modified at favorable terms and conditions due to weaknesses in the borrower's financial condition or ability to repay.

### 3. Objectives of the Directive:

The objectives of these directives are:

To enable microfinance institutions to meet the credit needs of their clients in a flexible manner;

To limit risk concentration by diversifying the loan portfolio;

To ensure that microfinance institutions recognize their non-performing loans in a manner that is consistent with the risk profile of their clients and that timely actions are taken with respect to such loans;

d) To ensure that microfinance institutions properly reflect in their financial statements the financial impact of non-performing loans.

### 4. Loan Limits and Repayment Periods

4.1 Total loans extended by a microfinance institution to any single borrower shall at no time exceed 1% (one percent) of the total capital of the microfinance institution.

4.2 Total loans extended by a microfinance institution to a group of borrowers on the basis of group guarantee shall at no time exceed 4% (four percent) of the total capital of the microfinance institution.

4.3 The maximum repayment period of the loans extended in line with articles 4.1 and 4.2 here in above shall not exceed 5 (five) years.

## 5. Individual Lending

Micro finance Institutions shall predominantly make credit available on the basis of group guarantee to members who have joined a membership arrangement. However, they may also lend on a limited scale to individuals on the basis of collateral or otherwise.

## 6. Conditions to Categorize a Loan as Non-performing

A loan shall be categorized as a non-performing loan when principal and/or interest due in line with the contractual agreement is unpaid for more than ninety days. For the purpose of these directives the entire outstanding loan (and not the installments that have not been repaid) shall be classified as non-performing.

## 7. Loan Classification and Minimum Provisioning Requirement

### 7.1 Classification of loans

Non-performing loans and advances of a microfinance institution shall be classified into the following three categories based on the number of days the loan is past due:

Category	Number of Days Past due
Substandard	91 - 180 days
Doubtful	181 - 365 days
c) Loss	over 365 days

### 7.2 Provisioning

7.2.1 Non-performing loans of a microfinance institution shall be subject to the following minimum provisioning requirements:

Category	Minimum Provisions
a) Substandard outstanding loan	25 % of the entire
b) Doubtful loan	50 % of the entire outstanding loan

c) Loss - 100 % of the entire  
outstanding loan

7.2.2 Notwithstanding the classification criteria used for the "substandard" category set out under 7.1.1 herein above, restructured non-performing loans shall be categorized, at a minimum, as "substandard":

a) Unless equivalent of at least all past due interest is paid by the borrower in cash at the time of restructuring of the loan and,

b) Unless 3 (three) consecutive repayments are made by the borrower on a timely manner in accordance with the restructured terms of the loan.

7.2.3 Microfinance institutions may deduct from the outstanding loan any cash deposit balances or Federal Government securities held as collateral against the loan before computing the required minimum provisions in line with sub-article 7.2.1 herein above.

7.2.4 Every microfinance institution shall categorize all its non-performing loans into the classification categories set out under 7.1 and set aside provisions set out under 7.2.1 on a quarterly basis and send the report to the Bank within four weeks from the end of the quarter. The Board of Directors of each microfinance institution shall review and approve on a quarterly basis the loan classifications and the amounts of provision set aside by the management of the institution.

7.2.5 The outstanding balance shall consist of the principal and all other charges, fees and other amounts which have been capitalized to the outstanding balance.

## 8. Income Recognition

From the effective date of these directives, interest income on loans classified as non-performing shall not be recognized in the Income or Profit or Loss Statement of a microfinance institution as income unless collected in cash.

## 9. Reporting Requirement

Every microfinance institution shall report, on a quarterly basis, to the Bank its loan classification and provisioning in the manner as shown in the formats attached with these directives.

## 10. Scope of Application

The provisions of these directives shall be applicable on all microfinance institutions.

11. Repeal:

Directives No. MFI/05/96 and No. MFI/17/02 are hereby repealed and replaced by these directives.

12. Effective date

These directives shall be effective as of 6th day of December 2006.

National Bank of Ethiopia

Name of MFI

Quarter Ending

1. Loan Portfolio Report

Description	Current Quarter	Previous Quarter
I Total Number of Clients		
1. Number of new borrowers		
2. Number of existing borrowers		
3. Total number of borrowers		
II Portfolio status		
4. Number of loans disbursed		
5. Value of loans disbursed (in '000's of Birr)		
6. Number of outstanding loans		
7. Value of outstanding loans		
8. Average loan size (7/6)		
III Deposits		
9. Number of clients		
10. Savings deposits ( "000 in birr)		
11. Time deposits ( " " " )		
12. Current accounts ( " " " )		
Total		

2. Loan Portfolio: Aging and Provisioning Report

Description	Number of Loans in Arrears ( a )	Outstanding Loan ( b )	Acceptable Collateral (as specified in these directives) ( c )	Outstanding Balance Net of collateral b - c = d	Provisioning rate (%) ( e )	Required Provisions ('000 birr) d x e = f	Actual Provisions ( g )
Substandard Doubtful Loss					25 50 100		
Total							

3. Total Amount of Loans Written off in the Reporting Quarter ('000 birr)