

Directive No. MFI/5/1996

LICENSING AND SUPERVISION OF THE BUSINESS OF MICRO-FINANCING INSTITUTIONS

LOAN POLICY, LIMIT, PERIOD AND PROVISIONS

1. 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 12(2) of the Licensing and Supervision of the Business of Micro-financing Institutions Proclamation No. 40/1996.

Loan Policy

In the granting of loans, the institution shall give preference to the application of marginal farmers of the rural community and to the application of the rural and urban communities engaged in micro-economic activities whose cash requirements are small.

Single Borrower Loan Limit

Loans extended to any one borrower by a licensed institution shall not at any one time exceed Birr Five Thousand (Birr 5,000.-).

Single Loan Period

Repayment of loans shall not exceed 12 (twelve) months; however, considering the nature of the enterprise for which the loan is extended and repayment performance the institutions may reschedule such loans.

Provisions

Provision for depreciation of fixed assets shall be made out of the annual income of the licensed institution in accordance with the law.

For provisioning purposes loans shall be categorized into two groups: bad loans/loss/and doubtful loans.

A loan is deemed bad loan/loss when the loan or outstanding balance has been overdue for more than one year and the borrower has no capacity to make further payments.

A loan is deemed doubtful when the monthly payment of the loan or outstanding balance is in arrears for more than six months.

Amounts of provision shall be for:

Bad loans	100%
Doubtful loans	50%

Operating and accumulated losses shall be provided for from the annual net profit until such losses are fully covered.

Interest income on bad and doubtful loans shall not be accrued as income. Such interest income shall only be taken up as income when actual payments are made. Only on full settlement of the arrears or overdue loans may the institution accrue interest on these facilities.

These directives shall enter into force as of 21st day of October 1996.

Dubale Jale
Governor
National Bank of Ethiopia