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**COVID-19: CBN SETS NEW DEADLINES FOR MICROFINANCE BANKS'  
MINIMUM CAPITAL REQUIREMENTS**



It is almost 11 weeks since the first confirmed COVID-19 case in Nigeria. However, with the impact of COVID-19 on human relations, businesses and the economy as a whole, it is as though the world as we knew it was a lifetime ago. We have all been compelled to experience and navigate a ‘new normal’ – this is also true for the government. Therefore, despite the continued health risks, it is clear that government authorities must take bold steps to protect and grow our dwindled economy.

The Central Bank of Nigeria (“**CBN**”), as expected, is playing a leading role in the fight to address the adverse economic impact of COVID-19. The CBN has introduced different policy measures in response to the COVID-19 pandemic, including extension of moratorium and reduction of interest rates on CBN intervention facilities, creation of a N50 billion targeted credit facility, provision of N100 billion credit support for the healthcare industry and regulatory forbearance for loan restructurings by banks. A more recent step taken by the CBN is the revision of the deadlines within which microfinance banks (“**MFBs**”) were required to meet the new minimum capital requirements.

The CBN had on 7 March 2019 issued a circular announcing the review of the minimum capital requirements for the different categories of MFBs in Nigeria. In the circular, the CBN also stipulated compliance deadlines for meeting the revised minimum capital requirements. However, in its recent circular dated 29 April 2020, the CBN extended the deadlines for compliance by 1 year as follows:

- MFBs operating in rural, unbanked and under banked areas (Tier 2) – N35 million capital threshold by April 2021 and N50 million by April 2022;
- MFBs operating in urban and high-density banked areas (Tier 1) – N100 million capital threshold by April 2021 and N200 million by April 2022;

- State MFBs – N500 million capital threshold by April 2021 and N1 billion by April 2022; and
- National MFBs – N3.5 billion capital threshold by April 2021 and N5 billion by April 2022.

While microfinance activities date back many years, the formal microfinance sector in Nigeria commenced in 2005 when the CBN introduced a microfinance policy. The policy objectives that drove the establishment of the formal microfinance sector by the CBN include ensuring that financial services are accessible to a large segment of the potentially productive Nigerian population, enhancement of service delivery by microfinance institutions to micro, small and medium enterprises and promotion of rural transformation.

For MFBs, the goals articulated by the CBN for their establishment include the provision of diversified, affordable and dependable financial services to the active poor to engender sustainable entrepreneurial activities, creation of employment opportunities, increasing the productivity of the active poor and provision of veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on a non-recourse case basis.

Since the introduction of the microfinance policy in 2005, the CBN has continued to issue policies and other regulatory directives to ensure the development of the microfinance sector and promote the purpose for which MFBs are established to serve. The minimum capital requirements policy is one of such policies issued by the CBN to ensure the provision of effective banking services by MFBs. Given the apparent impact of COVID-19 on the Nigerian economy and potential capital raising exercises by MFBs, it is clear that most MFBs may not be able to raise the minimum capital requirements within the initial deadlines, hence the revision. According to the CBN, the revision of the deadlines for compliance with the minimum capital requirements is in consideration of the impact of COVID-19 pandemic on economic activities in Nigeria.

To the extent that the government needs to kickstart the journey to economic recovery, it is expected that more socio-economic policies and measures will be introduced to ensure that the impact of the pandemic is, as much as possible, reduced on households and businesses. Indeed, the government and the private sector can utilize MFBs in the provision of economic palliatives for households and micro, small and medium enterprises as we all commence this journey to economic recovery.

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