

ESTABLISHING A FINANCE COMPANY IN NIGERIA

Introduction

Micro, Small and Medium Enterprises (MSMEs) play a significant role in the development of the economy of many countries. According to the World Bank¹, MSMEs represent about 90% of businesses worldwide. The growth of MSMEs in many countries, however, is often stifled by limited access to finance, as financial institutions are less likely to provide funding to MSMEs due to the high-risk nature of their businesses.

In Nigeria, the finance company licence was established by the Central Bank of Nigeria (“CBN”) to focus on meeting the financial needs of MSMEs. The CBN regulates finance companies through its Revised Guidelines for Finance Companies in Nigeria (the “Guidelines”) issued in 2014.

In this article, we examine the procedure for acquiring a finance company licence under the Guidelines.

What is a Finance Company?

A finance company is a company licensed by the CBN to provide financial services to individual consumers, and industrial, commercial or agricultural enterprises. These services include providing consumer loans, funds management, asset finance, project finance, local and international trade finance, debt factoring, debt securitization, debt administration, financial consultancy, loan syndication, warehouse receipt finance, covered bonds and issuing vouchers, coupons, cards and token stamps.

It is important to note that finance companies are required to operate on a “stand alone” basis. Therefore, unlike other financial institutions, the Guidelines specifically preclude finance companies from rendering services such as deposit-taking, stockbroking, foreign exchange transactions and non-financial activities including trading, construction and project management.

What is the procedure for the acquisition of a Finance Company Licence in Nigeria?

The procedure for the acquisition of a finance company licence is in two stages as summarised below;

Stage 1

An application for the acquisition of a finance company licence is made in writing to the CBN accompanied by the following documents:

- a non-refundable application fee of ₦100,000 (One Hundred Thousand Naira) payable to the CBN;
- deposit of the minimum capital of ₦100,000,000 (One Hundred Million Naira) with the CBN;

¹. <https://www.worldbank.org/en/topic/sme/finance>

- c. evidence of payment of the minimum capital of ₦100,000,000 (One Hundred Million Naira) by the proposed shareholders;
- d. a detailed business plan/feasibility study;
- e. a copy of the draft memorandum and articles of association of the finance company;
- f. a copy of the letter of intent to subscribe to the company signed by each subscriber;
- g. a copy of the list of proposed shareholders in tabular form showing their businesses, residential addresses and the names and addresses of their bankers;
- h. a signed and dated curriculum vitae of the proposed directors of the finance company;
- i. a copy of the draft manual of operations such as the enterprise management framework, credit policy etc.

Upon submission of the above, the CBN may, where satisfied, grant an Approval in Principle. It is only after the approval is granted that the finance company can be incorporated at the Corporate Affairs Commission (CAC).

Stage 2

Upon incorporation at the CAC and prior to commencement of business, the finance company is required to submit the following documents to the CBN.

- a. A certified true copy of the certificate of incorporation and other incorporation documents of the finance company.
- b. A copy of the shareholders' register in which the equity interest of each shareholder is properly reflected (together with the original for sighting) and a copy of the share certificate issued to each shareholder.
- c. A copy of the opening statement of affairs audited by an approved firm of accountants practising in Nigeria.
- d. A copy of the letters of offer and acceptance of employment by each management staff and a written confirmation that the management team approved by the CBN has been put in place.
- e. A letter of undertaking to comply with all the rules and regulations guiding the operations of finance companies.
- f. Evidence of registration with the Finance Company's association umbrella body.
- g. Evidence of payment of licensing fee of ₦250,000 (Two Hundred and Fifty Thousand Naira).

Upon receipt of the above, the CBN will conduct a physical inspection on the premises of the finance company and where it is satisfied that all requirements have been fulfilled, a finance company licence may be issued.

Conclusion

Companies interested in providing financial services to individual consumers and MSMEs involved in agricultural, industrial or commercial businesses on a large scale may obtain a finance company licence provided that the services they seek to provide conform with the provisions of the Guidelines.