



Lao People's Democratic Republic
Peace Independence Democracy Unity Prosperity

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The Bank of the Lao PDR

No. 02/BOL

Vientiane Capital, Date 20/June/2008

Regulation

Regulation For Non-Deposit Taking Microfinance Institutions

Based on the Law No 5/NA on the Bank of Lao PDR, dated 14 October 1999.

Based on the Notice of the Prime Minister on Microfinance Supervision No. 05/PM, dated 04 April 2007.

Based on a Proposal from the Banking and Financial Institutions Supervision Department of the Bank of Lao PDR.

The Governor of the Bank of Lao PDR issues the following regulation:

PART I

General Provisions

Article 1 Purposes of the Regulation

This Regulation regulates the establishment and operations of Non-Deposit Taking Microfinance Institutions within the territory of Lao PDR by outlining measures aiming at sustainability and harmonisation in implementation.

Article 2 Interpretation of Terms

"Non-Deposit Taking Microfinance Institution" means an institution that has been issued a Certificate of Registration, prohibiting the acceptance of voluntary deposits from general public as stipulated in Article 14 of this Regulation, by the Bank of Lao PDR.

"Certificate of Registration" means a certificate of registration issued to a Non-Deposit Taking Microfinance Institution by the Bank of the Lao PDR to operate under this Regulation.

“Microfinance Activities” means extending Micro-loans, accepting Compulsory Deposits and providing other financial services as stipulated in this Regulation or as determined by the Bank of Lao PDR from time to time.

“Voluntary Deposit” means the deposit of a sum of money repayable on demand or as agreed with the Non-Deposit Taking Microfinance Institution

“Compulsory Deposit” means a sum of money that it is obligatory for a borrower to deposit with a Microfinance Institution as a condition for receiving a loan or as collateral for a loan either as a percentage of the loan or as a nominal amount. The sum may be withdrawn by the borrower immediately upon repayment of the loan.

“Micro-loan” means a Loan with or without collateral. The maximum principal of which shall not exceed ten million (10,000,000) Kip, or any other amount as the Bank of Lao PDR may determined from time to time.

"Non-Performing Loan" means a loan for which:

- (a) either principal and/or interest in whole or in part is due and unpaid for more than thirty (30) days
- (b) either principal and/or accrued interest from 30 days has been added to an existing loan, new loan or restructured loan.

PART II

Establishment, Rejection of Establishment, Fee, Revocation

Article 3 Requirement to Register

Any existing or new state or international organisation, group or enterprise that carries out Microfinance Activities either solely or as part of its overall activities including but not limited to:

- (a) a Village Bank,
- (b) a Savings Group,
- (c) a Village Fund,
- (d) a Development Fund
- (e) others

is required to register under this Regulation and shall apply to the Bank of Lao PDR for a Certificate of Registration.

Article 4 Required Documents for Requesting a Certificate of Registration

The application file for a Certificate of Registration shall comprise the following original documents:

- (a) an application form in accordance with the format to be provided by the Bank of Lao PDR.
- (b) the bye-laws in accordance to the law and this Regulation
- (c) a letter stating the applicant's commitment to Microfinance Activities.
- (d) the balance sheet (a declaration of the assets, liabilities and capital).
- (e) a certificate of office location from the village/a map of the location.

Article 5 Period of Issuance of Certificate of Registration

1 The Bank of Lao PDR shall within thirty (30) working days of the receipt of the full application file notify the result (decline or approval) of its consideration.

2 Within fifteen (15) working days of receipt of the Certificate of Registration from the Bank of Lao PDR, a Non-Deposit Taking Microfinance Institution shall register with the relevant government authorities in accordance with the law.

Article 6 Name of a Non-Deposit Taking Microfinance Institution

1 A Non-Deposit Taking Microfinance Institution shall use the name specified in the Registration Certificate. If a name is used in a foreign language, the meaning shall be consistent with the name specified in the Registration Certificate.

2 The Bank of Lao PDR shall prohibit the Non-Deposit Taking Microfinance Institution from using a name if it is already used or if it closely resembles a name that is already given to another Non-Deposit Taking Microfinance Institution.

Article 7 Duration of the Certificate of Registration

Unless withdrawn earlier by the Bank of Lao PDR in accordance with Article 11 of this Regulation, the Certificate of Registration of the Non-Deposit Taking Microfinance Institution shall remain valid for ten (10) years.

Article 8 Refusal of Certificate of Registration

1 A Certificate of Registration shall not be issued if the Bank of Lao PDR finds:

- (a) any of the applicants is participating in illegal activities or there is a court decision prohibiting the applicant or one of its owners, directors or managers from engaging in Microfinance Activities or banking;
- (b) the conditions set out in Article 4 of this Regulation are not complied with;
- (c) unreliable information in the documentation submitted by the applicant.

2 In the case of refusal of a Certificate of Registration, the Bank of Lao PDR shall, within thirty (30) working days of receipt of the full application, provide a written statement of the reasons for refusal and shall return all submitted documents.

Article 9 Resubmission of Application

The applicants may address the reasons given for the refusal in writing to the Bank of Lao PDR. If the Bank of Lao PDR finds there are valid reasons the Bank of Lao PDR shall allow the applicant to re-submit an application for registration. The Bank of Lao PDR shall, within thirty (30) working days upon receipt of the file, issue its decision in writing as specified in Article 5 of this Regulation.

Article 10 Registration Fees for Certificate of Registration

1 An applicant shall be required to pay a registration fee in amount of two hundred thousand (200,000) Kip.

2 A registration fee is not applied to first resubmission. Any second resubmission is subject to a five hundred thousand (500,000) Kip fee. For any subsequent resubmission, the applicant will be subject to 150 % of previous resubmission fee.

Article 11 Suspension of Certificate of Registration and Operation

1 In the event a Non-Deposit Taking Microfinance Institution fails to register at a relevant government body as stipulated in Article 5 of this Regulation, the Certificate of Registration shall be suspended.

2 In the event a Non-Deposit Taking Microfinance Institution receives a compliance warning from the Bank of the Lao PDR but fails to comply with such a warning, the Non-Deposit Taking Microfinance Institution shall have its Certificate of Registration suspended for up to six (6) months by the Bank of the Lao PDR.

Article 12 Revocation of the Certificate of Registration

With immediate effect, the Certificate of Registration shall be revoked if a Non-Deposit Taking Microfinance Institution:

- (a) has been suspended for more than six (6) months.
- (b) has not commenced operations within twelve (12) months from the date of the Certificate of Registration.
- (c) is prohibited by a court decision from engaging in Microfinance Activities or banking activities.
- (d) discontinues its operations.

PART III

Capital of Non-Deposit Taking Microfinance Institution

Article 13 Capital

1 Non-Deposit Taking Microfinance can be established and operated without predetermined Non-Deposit Taking capital.

2 The capital of a Non-Deposit Taking Microfinance Institution may be mobilised by Government grants or donations, non-government organisations, international organisations, the private sector and others.

PART IV

Operations of a Non-Deposit Taking Microfinance Institution

Article 14 Rights and Duties of Non-Deposit Taking Microfinance Institutions

1 A Non-Deposit Taking Microfinance Institution shall be entitled to:

- (a) extend Micro-loans in Kip to the members.
- (b) receive Compulsory Deposits in Kip from the members.
- (c) mobilise capital in the form of loans or grants from Lao PDR and foreign organisation and other legal entities.
- (d) any loans/capital mobilised from Lao PDR and foreign organisation and other legal entities are subject to the written approval of the Bank of the Lao PDR.

- (e) attract the general public to become member of the institution.
- (f) open accounts and deposit funds with the Bank of Lao PDR, or with any commercial banks.
- (g) advise borrowers prior to the signature of a loan agreement of the total amount in Kip of fees and interest to be paid on the loan over the course of the loan.

2. A Non-Deposit Taking Microfinance Institution may determine its own deposit rates and loan rates according to market mechanism.

3 Non-Deposit Taking Microfinance Institutions is allowed to accept and receive Voluntary Deposits but not exceeding two hundred (200) million Kip in aggregate and in excess of ten (10) million Kip per depositor unless specifically authorised in writing to do so by the Bank of Lao PDR.

4 A Non-Deposit Taking Microfinance Institution receiving a donation or grant from any domestic or foreign source shall be fully aware of the ultimate source of such funds to avoid the risk of money laundering. deposit and loan

Article 15 Loan Agreement

1 At a minimum the loan agreement shall specify:

- (a) the first name and last name of the borrower.
- (b) amount of the loan.
- (c) purpose and drawdown period of the loan.
- (d) maturity date and repayment schedule.
- (e) the total amount of fees to be paid over the course of the loan, if any
- (f) the total amount of interest to be paid over the course of the loan.
- (g) penalties (in case a borrower is unable to fulfil a contract obligation).
- (h) security or collateral, if any.
- (i) procedures for settlement of disputes.

2 The loan agreement shall bear the signatures of the borrower and the lender.

Article 16 Loan Classification and Provision

1 A Non-Deposit Taking Microfinance Institution shall ensure that all loans are reviewed on a regular basis at least every calendar quarter. Any loan overdue shall be recorded as non-performing on the balance sheet and classified and provisioned for as follows:

- (a) Loans for which the principal and or interest are overdue for a period between 31-90 shall be classified as Substandard Loans and provision shall be made for twenty (25) % of the outstanding principal.
- (b) Loans for which the principal and or interest are overdue for a period between 91-180 days shall be classified as Doubtful Loans and provision shall be made for fifty (50) % of the outstanding principal.
- (c) Loans for which the principal and or interest are overdue for more than 180 days shall be classified as Loss Loans and a provision shall be made for hundred (100) % of the outstanding principal.

2 A Non-Deposit Taking Microfinance Institution shall maintain all documents related to Non-performing Loans for inspection of the accuracy and completeness of the provisions in

the accounting records and for use as evidence in the collection of debts or in legal action against borrowers.

Article 17 Revenues and Expenditure

- 1 Revenues of a Non-Deposit Taking Microfinance Institution include:
 - (a) revenues from interest.
 - (b) revenues from service fees and charges.
 - (c) other revenues.
- 2 Expenditures of a Non-Deposit Taking Microfinance Institution include:
 - (a) interest of any borrowings.
 - (b) business administration costs.
 - (c) provisions.
 - (d) depreciation and amortisation of fixed assets.
 - (e) other expenditures.

Article 18 Accounting and Reporting

- 1 A Non-Deposit Taking Microfinance Institution shall utilise a chart of accounts determined and provided by the Bank of the Lao PDR
- 2 The Non-Deposit Taking Microfinance Institution shall summarise and submit the following accounting reports annually no later than the 15th January of the following year to the Bank of the Lao PDR in accordance with proforma provided by the Bank of Lao PDR:
 - (a) information on assets and liabilities (Balance Sheets).
 - (b) information on revenues and expenses (Income Statement).
 - (c) information on loans and deposits (Loan Portfolio Report).
 - (d) information on Non- Performing Loans and Provisions (Loan Classification Report).
- 3 Other reports as determined by the Bank of the Lao PDR from time to time.

Article 19 Keeping Accounting Documents

Non-Deposit Taking Microfinance Institutions shall keep accounting documents in a secure place for at least ten (10) years.

PART VII Final Provisions

Article 20 Requirement to Convert to a Deposit-Taking Microfinance Institution

A Non-Deposit Taking Microfinance Institution that

- (a) wishes to take Voluntary Deposits in excess of two hundred (200) million kip or such other amount as the Bank of Lao PDR may determine from time to time, or
- (b) is generating annual revenues of more than one (1) billion kip shall be required to convert to a Deposit-Taking Microfinance Institution or a Savings and Credit Union and shall

apply for a Licence under and shall be subject to regulations for Deposit-Taking Microfinance Institutions or regulations for Savings and Credit Unions as applicable.

Article 21 Implementation

1 Any state organizations provincial, district, village level or group organization, individual, international organization, private organization or enterprise which are currently or planning to carry out Microfinance or similar activities is required within a period of twelve (12) months from the effective date of this Regulation to comply with requirement as stipulated in this Regulation.

2. The Bank of the Lao PDR may apply penalty measures to any institutions or entities which carry out activities which are deemed as similar to microfinance activities, or to any institution including Non-Deposit-Taking Microfinance Institutions and Saving and Credit Unions as well as management or officers individually or as a group case by case basis in the amount of one hundred thousand (100,000) Kip per day or such amount as determined from time-to-time by the Bank of Lao PDR if found guilty of violating this Regulation until such time as the violation is corrected.

Article 22 Effectiveness

This Regulation replaces Regulation No. 10/BOL dated 22 June 2005 concerning the Establishment and Operations of Microfinance in the Lao PDR and shall become effective as from the date of its signature.

The Governor of the Bank of the Lao PDR