



Lao People's Democratic Republic
Peace Independence Democracy Unity Prosperity

The Bank of Lao PDR

No. 01 /BOL

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**Implementation guidelines of
Decree on Microfinance Institutions**

- Pursuant to the Law on Bank of the Lao PDR, no. 05/NA, dated 14th October 1999;
- Pursuant to the Decree on Microfinance Institutions no. 460/GOV, dated 3 October 2012;
- Pursuant to the proposal made by Financial Institution Supervision Department no. 60/FISD, dated 30.03.2016

The Governor of the Bank of Lao PDR issues the implementation guidelines as follows:

Chapter I

General Provisions

Article 1 Purpose

This guideline has been stipulated in order to explicitly elaborate the content of some articles of the decree on the Microfinance Institutions ensuring the implementation of this decree with a country-wide consensus.

Article 2 Definition of terms

The terms used in this guideline have the following meaning:

1. Fixed capital refers to building, land;
2. Capital in kind refers to fixed assets e.g. vehicle, computer, chairs, tables...;
3. Current capital refers to cash capital;
4. Branch is a part of Microfinance Institutions with permission to do related business following its roles and responsibilities. The branch can be established in the area of the head office or in provinces with permission from the Bank of Lao PDR;
5. Service Unit is a part of Microfinance Institutions with permission to do part of business as designated by the head office and agreed by the Bank of Lao PDR;
6. Microfinance loan refers to micro loan with maximum loan amount not exceed fifty millions (50.000.000) kip.
7. Relevant party refers to:
 - Auditing Organization or auditor who carries out an audit for the Microfinance Institutions;
 - Individual or enterprise with over ten per cent (10%) shares of Microfinance Institutions;

- The company with member in management council, management board or director or staff responsible for loan evaluation and approval, the persons who are (direct) relatives such as father, mother, step-parents, husband, wife, real children, step-children or siblings...; and (in-direct) relatives such as son-in-law, daughter-in-law, grandmother, grandfather, (older) uncle, (older) aunt, (younger) uncle, (younger) aunt..., with member in management council, management board or director who holds ten or more than ten percent (10%) of the Institutions shares;
 - The entity where the Microfinance Institutions has the shares;
8. Regular loan refers to the loan that can fully follow the conditions of the contract;
 9. Non-Performing Loan (NPL) refers to the loan that:
 - All or part of the capital and the interest cannot be paid back according to the plan, which is overdue from thirty (31) days and above;
 - All or part of the capital and the interest cannot be paid back according to the plan, which is overdue from thirty (31) days and above or the loan with improved debt structure;
 10. Accounting document refers to general ledger, daily record, cash book in connection with different accounts and other accounting documents written by hand, electronic format or USB that used by the Microfinance Institutions;
 11. Representative refers to the individual or entity that represents an individual or an entity in doing business, negotiation, signing contracts and/or activities
 12. Related Parties refers to Authority, judicial sector, administrative body and other related parties;
 13. Temporary business permit refers to certified letter in principle to allow the requesting person to prepare all required conditions such as technical matters, human recourses and pay the registered capital in ninety (90) days;
 14. Permanent business permit refers to official permit for doing microfinance related business;
 15. Cash on hands refers to cash that available at Deposit Taking Microfinance Institutions and Non Deposit Taking Microfinance Institutions.

Article 3 Scope of use

This guideline has been put into effect for Deposit Taking Microfinance Institutions, Non Deposit Taking Microfinance Institutions, microfinance projects, branches and service units of the Microfinance Institutions.

Article 4 Location

Microfinance Institutions, which has official permit by the Bank of Lao PDR for doing microfinance related business, is able to open the head office, branches or service units in the country, according to written agreement of the Bank of Lao PDR.

In case, the office (Head office, Branch or Service Units) will be moved, according to written agreement of the Bank of Lao PDR.

Chapter II

Deposit Taking Microfinance Institutions

Article 5 Application for Business Permit

Deposit Taking Microfinance Institutions, the application for business permit comprises of:

1. The structure of economic analysis and the three (3) year business operational plan must include the following main contents:
 - Introduction;
 - Objective;
 - Source of fund;
 - Organizational structure;
 - Scope and modality;
 - Estimate incomes and expenditures for three (3) years;
 - Market trend study;
 - Conclusion.
2. Resume of the major shareholder and managing director certified by village authorities;
 - In case of a foreigner, certified by respective organization or the embassy;
3. Police/court declaration paper of the managing director or passport (for foreign person);
4. Certificate of financial statement of the shareholder who is the founder with following details:
 - Individual shareholders need the following documents: copy of savings statement or six (6) months fix deposits, certificate of assets or goods, declaration of assets and liabilities or credit documents and sources of capital.
 - Institutional shareholder must have main documents such as copy of deposit with at least a two (2)-year transaction, external audit report for last two (2) years with declaration of assets and debts or loan contract and inform funding sources.

Article 6 Structure of Registered Capital

Registered capital consists of current capital and fixed capital. In this, current capital must be at least ninety per cent (90%) of registered capital and the maximum fixed capital is ten per cent (10%) of the registered capital;

The Microfinance Institutions that accepts deposits can increase or decrease its registered capital according to written agreement of the Bank of Lao PDR. The reduction must not be less than the amount of registered capital defined article 10 of the decree on the Microfinance Institutions no. 460/GOV, dated 3 October 2012.

Article 7 Investments in enterprises

The DTMTFI that is operating soundly and has sufficient capital is allowed to invest in other business entities but this investment should not exceed ten (10) per cent of the registered capital.

Article 8 Foreign Investment

Foreign individual and entity can invest to establish Microfinance Institutions for money deposit and the minimum proportion of the share by foreign share holder is ten per cent (10%), but maximum is thirty per cent (30%) of the capital.

The proportion of the share by foreign share holder can be changed up on the Bank of Lao PDR and comply with the laws. For foreign investments in the form of shares comply with investment law and written information to the BoL is required.

Article 9 Permission for a business

The Bank of Lao PDR will issue a temporary business permit for the applicant within thirty (30) working days from the date of receiving the correct and complete application; as below:

1. Consist at least of 5 shareholders in this, must consist of 1 main shareholder hold over 20 percent, but should not exceed 40 percent of the registered capital.
2. At least 2 years experiences of the Managing Director in field of, Banking, Accounting or Microfinance.

The Bank of Lao PDR will consider the issuance of the permanent business permit within thirty (30) working days from the date the applicant fulfilled all conditions as below:

1. Fully paid all registered capital to the Bank of Lao PDR;
2. The office location, technical aspects are checked and ready for service provision;

In case of permission is not granted for any reasons, the Bank of Lao PDR will provide a written notice on the rejection within fifteen (15) working days. The applicant can correct all causal shortcomings within sixty (60) working days and resubmit the application to the Bank of Lao PDR for new consideration.

Article 10 Fees and service charges

The applicant who request for setting up Microfinance Institutions must pay following fee and service to the Bank of Lao PDR who considers the permission, after issue a temporary business permit, following the details:

1. Document submission fee as follows
 - For the head office three million (3,000,000) kip;
 - for branches in total one million (1.000.000) kip per each branch;
2. The charge for issuance of business permit as follows:
 - For Head office with registered capital from 3 billion up must pay zero point five (0.5) per cent of the registered capital ;
 - For the extension of a branch that has capital from 1 billion kip up the applicant has to pay zero point five (0.5) per cent registered capital.
3. The applicant who submit the application two (2) times and more must pay service fee as defined in point 1 of this article;

For the application rejected by the Bank of Lao PDR, the applicant can prepare again within thirty (30) days without paying additional fee.

Article 11 Payment of service fee for submitting documents and consideration of approving the business license

The person that applies for the business license for the MFI has to pay the document submission fee when submitting the application documents to BoL. The document submission fee cannot be refunded. The approval fee has to be paid before the day when the permanent business license is received.

Article 12 Annual supervision fee

The DTMFI must pay an annual supervision fee to Bank of Lao on January each year. The amount of the fee is zero point zero two (0.02) per cent of the average assets or at least zero point two (0.2) per cent of the registered capital.

Article 13 Expansion of a branch or a service unit

The DTMFI can expand its branch and service unit if they fully reach the following conditions:

1. Able to Comply with the BoL's capital adequacy ratio not less than 12%;
2. The By-Law consists an organogram with linkages of branch's supervision.
3. Audit report by external audit firm that permitted by the Ministry of Finance;
4. Senior management boards have knowledge and competency on finance, banking or accounting;
5. The technical staff has knowledge and competency, available of Core banking-reporting system, policy and operational manuals;
6. Every branch and service unit expansion must have permission from the Bank of Lao PDR in written form;

Article 14 Branch and service unit

The branch of Microfinance Institution consists of standard Bureau or office, equipment required to ensure service.

Branches can conduct business with following headquarter authorisation. The branches has loan approval right for retail client not exceed then ten million (10,000,000) LAK per loan, group loan twenty million (20,000,000) LAK per group but not exceed then ten groups. From eleven groups up has to submit to approve by headquarter in written form.

Branches has to submit financial report to headquarter by monthly, quarterly, annually. For the branches or service units which is located in the area of BoL's branch located, it must submit the report to the branch of the BoL as well; For branches or service units are under the supervise of BoL headquarter, DTMFI's head office has to gather the report then submit to the Financial Institutions Supervision Department, the Bank of Lao PDR.

The service unit can represent the branch in receiving deposits, disbursing loans and collect debts as designated by the branch or head office.

The service unit reporting on receiving deposits, disbursing loans and collect debts to the branch in daily, weekly and monthly.

Article 15 Microfinance transactions

The Deposit Taking Microfinance Institutions can do the business as below:

1. Receiving deposits from general public in Kip currency only, such as:
 - Saving deposit;
 - Fixed deposit for 3 months, 6 months, 9 months, 12 months, 24 months or 36 months;
2. Releasing microfinance loans in kip with amount not exceed then fifty million (50,000,000) LAK;
3. The Deposit Taking Microfinance Institutions must maintain the portion of microfinance loans not less than eighty per cent (80%), loan for woman not less than ten per cent (10%) of the total credits;
4. Releasing the loans to the major customer not exceed twenty (20) percent of the total credits, in this; releasing the credits to one customer is not exceed than ten (10) percent of the total credits;
5. Able to be an agent for domestic transfers;
6. Able to be an agent of insurance company.

Deposit Taking MFIs has financial stability are allowed to have the credits from domestic and international, but not exceed thirty (30) percent of the total credits. For foreign currency and import of a credit in foreign currency a written approval of the BoL is required.

Article 16 Defining interest rates and service fees

The Deposit Taking Microfinance Institution can define the interest rates, loans, deposits and service fees according to market mechanism or according to the Bank of Lao PDR. The calculation of the interest rate for loans in amounts from 5.000.001 LAK, must follow the declining balance method; For loans in amounts not exceed 5.000.000 LAK, be able to follow the fixed balance method.

The fees for documents and service fees should be inform to the customers before they agree to get the loan.

Article 17 Prohibitions

The Deposit Taking Microfinance Institution is not allowed to carry out the following transactions:

1. Carrying out transactions in foreign currencies without permission from the Bank of Lao PDR;
2. Giving privilege for related party in using the service of the Deposit Taking Microfinance Institutions;
3. Do not carry out any other transactions without permission from the Bank of Lao PDR such as:
 - Leasing transactions;
 - Buying gold or other valuables, buying raw materials and other goods;
 - Provision of payments through cheques ;
 - Issue a certificate for purchase and sale in advance;

- Issuing credit documents or bank guaranty as offer by commercial bank, bidding and bond guaranties or other guaranty documents;
- Provision of insurance service and transfers as a business owner;
- Buying and selling or doing a business related to real estates (land, buildings or other dwellings unless they are used for the Institutions);
- Purchase and sell or possess the financial product in the inappropriate and unauthorized manners;
- Open an account abroad;
- Buying and selling foreign currencies in advances
- Other prohibitions as defined by the Bank of Lao PDR.

Article 18 Suspended and Withdrawal of the business permit

The Deposit Taking Microfinance Institution received BoL's warning letter but not following and take action, BoL will be suspended temporary until warning letter has been established. This suspended will not exceed than six months.

The business permit of the Deposit Taking Microfinance Institution will be withdrawn in the following cases:

1. Violation of the regulation as defined in the article 35 of the decree on the Microfinance Institutions no. 460/GOV, dated 3 October 2012;
2. Cannot perform within ninety (90) days from the date of obtaining the business permit;
3. If there is a court decision that institution cannot conduct business operations;
4. Do not follow the notice or correction measures of the Bank of Lao PDR or stakeholders;
5. Do not continue the business in an inappropriate manner;
6. Violation of the laws of Lao PDR.

Article 19 Maintenance of Prudential Requirements

The Deposit Taking Microfinance Institutions must comply with financial proportion in order to ensure the sustainability in accordance with the regulation stipulated by the Bank of Lao PDR as follows:

1. The ratio of capital to risk weighted asset is not less than twelve per cent (12%) or as updated by the Bank of Lao PDR;
2. Cash on hand ratio of at least four per cent (4%) calculated as follows: Total Cash / total deposit;
3. Liquidity/ quick ratio at least twenty per cent (20%) calculated as follows: (Total cash + deposit at the bank or other financial Institutions) / total debts;

Article 20 Filing of documents and transaction data

The Deposit Taking Microfinance Institutions must file all documents and set up database in its head office in both hard and electronic copies according related regulation and Laws.

Article 21 Accounting System

The Deposit Taking Microfinance Institutions must comply with BoL's accounting rules and with enterprise accounting procedures in accordance with the law on accounting.

Article 22 Dissemination of financial information

The Deposit Taking Microfinance Institutions must print and publish its financial status as: financial report, yearly report through media as newspaper, television, radio or website within 5 consecutive working days.

Article 23 Liquidation Committee

Liquidation Committee is comprised of individuals from different organizations such as: BoL, Court, Police, local authority, Board of Director and Manager of the microfinance institution.

Chapter III

Non Deposit Taking Microfinance Institutions and Microfinance Projects

Article 24 Capital

A NDTMFI must have registration capital of at least two hundred million (200.000.000) kip. In case the NDTMFI has assets of more than three billion (3.000.000.000) kip it can be transformed into a Deposit Taking Microfinance Institution.

The registration capital can be used for the following purposes:

1. Ten (10) per cent of the registration capital for fixed technical assets
2. Credits to clients

Expansion of a branch or a service unit of NDTMFI is follow to the same method as DTMFI, in article 13 and 14 of this guideline.

Article 25 Foreign Investment

Foreign individual and entity can invest to establish NDTMFI and the minimum proportion of the share by foreign share holder is ten per cent (10%), but maximum is thirty per cent (30%) of the capital.

The proportion of the share by foreign share holder can be changed up on the Bank of Lao PDR and comply with the laws.

For foreign investments in the form of shares comply with investment law and written information to the BoL is required.

Article 26 Capital of NTMFI

A NDTMFI is allowed to borrow and receive the grant help from domestic or international.

Borrow credit from aboard not exceed than thirty percent (30%) of cross loan outstanding. Every domestic and international loans must be approved by BoL in written form.

For the grant help from domestic or international must be approved by BoL.

Article 27 Capital of Microfinance project

To run microfinance project need to have operational capital at least one billion (1,000,000,000) LAK and comply with the criteria mentioned in the article 59, 60, 61 and 63 of the Decree on Microfinance No. 460/GOL, date 03 October 2012.

Article 28 Process before the end of a project

Before the end of a microfinance project the implementer of the project must cooperate with concerned stakeholders to propose to the Bank of Lao PDR to consider to transform operations into another kind of microfinance institution or closed base on suitable condition.

Article 29 End of project activity and withdrawal of business license

A microfinance project will end BoL will withdrawal of business license in the following cases:

1. The project is not implemented according to the project commitment
2. The project is not implemented according to the project agreement or does not work effectively.
3. Not able to implement an accounting system and a reporting three (3) consecutive times
4. The project violates the law and related of BoL regulations

Article 30 Fees and service fee

The person who is applying for the business license for the NDTMFI or operate microfinance project has to pay a fee and service free to the Bank of Lao PDR for issuing the business license as following:

1. Document submission fee of five hundred thousand (500.000) kip.
2. Fee for issuing the business license: For [Institutions] that have registration capital from two hundred million (200.000.000) kip up have to pay zero point five (0.5) per cent of the registration capital.
3. The person applying for the business license that is re-submitted for two (2) or more has to pay service fee according to number 1 of this article.

For applications that are rejected by the Bank of Lao PDR the person applying for the business license can re-submit the documents within thirty (30) days without paying additional fees.

Article 31 Annual supervision fee

NDTMFI and microfinance projects have to pay an annual supervision fee according to article 12 of this decree of this implementing guideline.

Article 32 Implementation of the terms for NON - Deposit Taking Microfinance Institution

The Non Deposit Taking Microfinance Institutions must follow the provision of Deposit Taking Microfinance Institutions as follows:

1. Prohibition to perform business transactions and withdrawal of the business license shall follow articles 17 and 18 of this guideline;
2. Storage of data and accounting system shall follow articles 20 and 21 of this guideline.

Chapter IV
Measures for violators

Article 33 Measures for violators

If the Microfinance Institutions, major shareholders, managing director and staff of the Microfinance Institutions violate the decree on Microfinance Institutions, the following measures will be taken:

1. Measures for 1st time:
 - Notices in written form
 - Invite to receive the warning
2. Measures for 2nd time:
 - Notices in written form, and fine of one hundred thousand (100.000) kip per day
3. Measures for 3rd time:
 - In case, a fine of one million (1,000,000) kip if fifteen (15) days are exceeded without improvement.
 - After the period of ninety (90) days the Bank of Lao PDR will stop the business activities for a temporary period of one hundred eighty (180) days.
 - After 180 days, but Institutions still not improve and report to the BoL in written form, the BoL will Withdraw the business license, then inform to relevant organization and the public.

Article 34 Violation of reporting system

Deposit Taking Microfinance Institutions, Non Deposit Taking Microfinance Institutions and Microfinance projects that submit the report lately, report wrongly or not follow the article of reporting system as specified in the article 70 of the decree on microfinance institutions number 460/GOV as of October 3rd, 2012 the following measures shall be applied:

1. In case of delay report:
 - Will be reminded in written form;
 - In case reminding is done for a second (2) time and violation still persist or worse it will be fined for one hundred fifty thousand (150,000) kip per day.
2. In case of wrong report submission it will be:
 - reminded in written form;
 - In case reminding is done for a second (2) time and violation still persist or worse it will be fined for one hundred thousand (100,000) kip per day.
3. In case of submitting a falsified report the following fines will be applied:
 - The person in charge for accounting [will be fined] two hundred thousand (200.000) kip per time and has to correct the data
 - The manager [will be fined] three hundred thousand (300.000) kip per time and will be advised to take over responsibility to control [the data/report]

Article 35 Policy Implementation

Shareholders or managers of the microfinance Institutions that was withdrawal of business license, be able to resubmit the application ask for business permit to establish the Institutions again after 2 years, following as:

1. The bankruptcy person was not judged by the court
2. Not involved in the political court case, embezzlement, cheating, robbery, the drug trade, arms trade and etc., which is seriously law violation.

Chapter V

Final Provisions

Article 36 Implementation

It is delegated to the Financial Institution Supervision Department and the branches of the Bank of Lao PDR to take ownership in implementation of this guideline in a strict and effective manner;

All departments and the equivalents within the Bank of Lao PDR, Deposit Taking MFIs, Non Deposit Taking MFIs, microfinance projects, local authorities and relevant agencies shall acknowledge [this guideline] and cooperate in implementation according to their roles and responsibilities.

Article 37 effecting

This guideline has been put into effect from the date of signature.

The Governor of the Bank of Lao PDR

Dr. Somphao Phaysith