



Lao People's Democratic Republic
Peace Independence Democracy Equality Prosperity

Prime Minister's Office

Number 460/G

Vientiane Capital, Dated 03 October 2012

Decree
on
Microfinance Institutions

Chapter I
General Provisions

- Pursuant to the Law on Government of the Lao People's Democratic Republic No. 02/NA, dated 6 May 2003;
- Pursuant to the Law on Bank of the Lao People's Democratic Republic No. 05/NA, dated 14 October 1999;
- Pursuant to the Resolution of the Meeting of the Government for August 2011, No. 06/G, dated 29 September 2011;
- Pursuant to the Request Letter of the Bank of the Lao PDR No. 332/BoL, dated 06 September 2012.

The Prime Minister hereby issues the decrees:

On
Microfinance Institutions

Chapter I
General Provisions

Article 1. Objectives

This Decree defines principles, regulations and measures for establishment, operations and supervision of microfinance institutions in Lao PDR in order to ensure

security and stability; set out conditions for multi ethnic people to have access financial services contribute to poverty reduction and develop national economy and society.

Article 2. Microfinance institutions

Microfinance institutions are those financial institutions undertaking microfinance transactions established under this Decree, which comprise of deposit-taking, non-deposit-taking microfinance institutions and microfinance projects.

Article 3. Interpretation of terms

Terms used in this Decree shall have the following meanings:

1. **Microfinance** means provision of financial service in varied forms. For instance, provision of loans, taking deposit, provision of security and others in the form of cash transactions to the poor, low income families and small enterprises;
2. **Deposit-taking microfinance institutions** means microfinance institutions that may mobilize deposits from general public, provisions of micro loans, and microfinance services as defined in this Decree;
3. **Non-deposit-taking microfinance institutions** means financial institutions that provide micro loans and taking deposit in the form of loan or grant domestically or internationally and undertaking their operations under this Decree;
4. **Microfinance projects** means village development funds, village banks or other similar projects undertaking business operations similar to micro finance established by group of people, entities that have organizations or individuals to provide funding;
5. **Microfinance transactions** means mobilization of deposits from general public, provisions of microfinance loans and other financial services under authorization of the Bank of Lao PDR;
6. **Microfinance loan** means small loans that have value as defined by the Bank of Lao PDR;
7. **Related parties** means executive officers, major shareholders, persons who have marriage relationship, direct lineage relatives, persons having economic interests with the executive officers or major shareholders;
8. **Executive officers** mean members of Board of Directors, directors, deputy directors and managers of the microfinance institutions;
9. **Major Shareholders** means persons or entities holding shares from 20% in the deposit taking microfinance institutions or non deposit taking microfinance institutions;
10. **Capitals** means paid-in registered capital, mandatory reserves and reserves for business expansion and other funds as defined by Bank of Lao PDR;

Article 4. Government's Policy on Microfinance institutions

The State defines policy and laws and regulations to support and promote individuals and organizations, both local and international, to establish microfinance

institutions and participate in microfinance operations aiming to develop and strengthen microfinance sector.

The State encourages microfinance institutions to provide financial services to people and small enterprises in order to reduce poverty and improve livelihoods of multi ethnic people.

Article 5. International Cooperation

The State promotes international cooperation in microfinance sector's development by exchanging and sharing lessons and experience, data and information, science and technology related to microfinance operations.

Article 6. Scope of Application

This Decree applies to microfinance institutions, persons, entities and organizations who are related to the microfinance sector as stipulated in this Decree.

Chapter II

Deposit-taking Microfinance Institutions

Section 1

Establishment

Article 7. Establishment Application

Individuals, entities or organizations who wish to establish deposit-taking microfinance institutions shall submit application through the Industry and Commerce Sector.

The application for establishment shall consist of the following documents:

1. Application for enterprise registration in accordance with the form of the Industry and Commerce sector;
2. Application for establishment in accordance with the form of the Bank of Lao PDR;
3. First three (3) years business plan;
4. Biography of major shareholders and executive officers;
5. Criminal records of executive officers;
6. Certificate for Enterprise Registration;
7. Certificate of financial status of proponent shareholders ;
8. List of shareholders;
9. Incorporate Agreement between Shareholders;
10. Articles of Association;
11. Map of office location certified by village administration where the office is situated; and

12. Other documents as defined by the Bank of the Lao PDR and the Industry and Commerce Sector.

After receiving of the applications, the Industry and Commerce Sector shall send the application file to the Bank of Lao PDR within ten (10) days from the date of receipt of complete applications.

Article 8. Consideration of Establishment Application

The Bank of Lao PDR shall consider and inform the result of the review of establishment application within thirty (30) working days from the date of receipt of application.

The Bank of the Lao PDR shall issue the license for establishment, if the applicant meets the following requirements:

1. Having a sound and reasonable business plan;
2. Having qualified executive officers, with experiences in financial and banking or other related sectors, and qualified staff appropriate for undertaking of microfinance operations;
3. Having a clear structure of shareholders;
4. Having a good financial status and fully paid up registered capital;
5. Having standard office premises, sufficient vehicle and equipment as required by the Bank of Lao PDR;
6. Having a comprehensive operational system, audit system and internal control system; and
7. Ready to provide services.

In case of the applicant fails to meet the above requirements, the Bank of Lao PDR shall inform the applicant in writing together with reasons for rejection.

Article 9. Foreign Investment

Foreign individuals and entities may jointly invest with local individuals and entities to establish deposit taking microfinance institutions in accordance with the proportions as defined by the Bank of the Lao PDR.

Article 10. Registered Capital

A deposit taking microfinance institution shall have a minimum registered capital of three billion (3.000.000.000) Kips. The Bank of Lao PDR may increase the registered capital by getting consent of the Government.

The registered capital of deposit taking microfinance institution may be utilized for the two following purposes:

1. Use for repair of the office and provision of technical equipment;
2. Use as source of loan funding.

Article 11. Articles of Association

Articles of Association of a deposit-taking microfinance institution shall have main contents as follows:

1. Name of institution and location of the office;
2. Objectives;
3. Registered capital;
4. Type of shares and amount of shares;
5. Address and nationality of the founder;
6. Internal administration and management;
7. Shareholders' meeting and voting method;
8. Dividend distribution;
9. Disputes resolution; and
10. Liquidation.

These Articles of Association of a deposit taking microfinance institution shall be effective after approval of the Bank of Lao PDR.

Article 12. Establishment License

The license for the establishment of a deposit taking microfinance institution may be used throughout its business operations and cannot be transferred or assigned to others.

Article 13. Fees and Service Charges

The applicant shall pay fees and charges for the consideration of the application in accordance with the regulations of the Bank of Lao PDR promulgated in each period.

Article 14. Maintenance and Disclosure of Information

Bank of Lao PDR shall maintain data and information regarding the licensing of a deposit taking microfinance institution and shall publish the same through an appropriate.

The core data and information to be disclosed consists of the followings:

1. Name of the institution and locations of head office and its branches;
2. Registered capital;
3. Series number, date of the establishment license; and
4. Scope of approved operations.

In case when a deposit taking microfinance institution is liquidated, the Bank of Lao PDR shall delete out such data and information.

Article 15. Membership of the Depositors' Protection Fund

A deposit taking microfinance institution shall become a member of the Depositor' Protection Fund in accordance to regulations issued by the Fund.

Section 2

Organizational Structure of a Deposit Taking Microfinance Institution

Article 16. Organizational Form

A deposit taking microfinance institution shall be established and operated under the form of company as stipulated in the Law on Enterprises, except for the sole company limited.

Article 17. Organizational Structure of a Deposit Taking Microfinance Institution

The organizational structure of deposit taking microfinance institution of Shareholders' Meeting, Board of Directors, Internal Audit Committee and Directors, and some committees based on the decision of the deposit taking microfinance institution.

Article 18. Shareholders' Meeting

The Shareholders' Meeting is the highest organization of the deposit taking microfinance institution. The Shareholders' Meetings consists of Annual Ordinary Meetings and Extraordinary Meetings.

The Annual Ordinary Shareholders' Meeting is convened not later than the fourth month after the end of financial year.

The Annual Ordinary Shareholders' Meeting can be convened if attended by more than half of all shareholders.

The resolutions of Annual Ordinary Shareholders' Meeting shall be effective if voted for by more than half of the total shares of shareholders attended the Meeting. The voting rule shall be one share per one vote.

Article 19. Rights and Duties of Annual Ordinary Shareholders' Meeting

The Annual Ordinary Shareholders' Meeting has the following rights and duties:

1. To hear the report of the Board of Directors on business operation, report of external audit's results;
2. To adopt the annual business plan and proposal for dividend distribution;
3. To elect or remove Directors of the Board of Directors;
4. To approve the selection of external audit firm and auditing fees;
5. To approve amendments, modification of the Articles of Association of deposit taking microfinance institution, to make a decision on the Meeting allowances of the Board of Directors and policy on the salary of the executive director;
6. Fulfill other rights and duties according to laws and Articles of Association of the deposit taking microfinance institution.

Article 20. Extraordinary Shareholder’s Meeting

The Extraordinary Meeting of shareholders may be convened at any time by the call of Board of Directors, directors or by request in writing of at least thirty (30) percent of shareholders.

The Extraordinary Meeting may be convened by request of a competent authority.

The Extraordinary Meeting can be convened if attended by more than half of all shareholders, which hold more than half of total shares.

The Resolutions of Extraordinary Shareholders’ Meeting shall be effective if voted for by more than half of the total shares of shareholders attended the Meeting.

Article 21. Board of Directors

The Board of Directors comprises of 3 to 7 members, including the Chairman of the Board, with at least one independent member.

Members of Board of Directors are elected or removed by the Annual Ordinary Shareholders’ Meeting.

The term of Board members is 3 years and can be reelected.

In case of death of any member of the Board or any member is not able to carry out his or her function or resigns between two Annual Ordinary Shareholders’ Meetings, the Board has the right to appoint a new Board’s member until the next Annual Ordinary Shareholders’ Meeting.

The Board of Directors shall meet at least once every three months.

Article 22. Criteria of Board of Directors’ Members

Members of the Board of Directors shall meet the following criteria:

1. To have qualification and experience in management, to have knowledge and capacity in finance, banking or legal;
2. Never been removed from the position of director of other entities;
3. Never been convicted by the court of an offence of stealing, embezzlement, fault, forgery of document, taking or giving bribery, corruption and money laundering;
4. Have legal capacity;
5. Shall not hold a position or being officers of other institutions.

Article 23. Rights and Duties of Board of Directors

The Board of Directors shall have the following rights and duties:

1. Implement the resolutions of Shareholders’ Meetings;
2. Report on results and plan for business operation of the deposit taking microfinance institution to the Annual Ordinary Shareholder’s Meeting;

3. To be accountable for the damages of the deposit taking microfinance institution caused by their defaults;
4. Propose to a plan for dividend distribution to the Annual Ordinary Shareholders' Meeting and creation of reserved funds for approval;
5. Appoint new member(s) of the Board of Directors between two Annual Ordinary Shareholders' Meetings;
6. Appoint or remove internal audit committee;
7. Appoint, transfer or remove Directors, approve the appointment of Deputy Directors as proposed by the Directors;
8. Define policy direction and plan for management and to propose them to shareholders' meetings;
9. Adjust and approve Articles of Association; and
10. Fulfill other rights and duties as provided for by laws and Articles of Association of the deposit taking microfinance institution.

A member of the Board of Directors shall not assign his/her duties to any other person to implement on his/her behalf.

Article 24. Internal Audit Committee

The internal Audit Committee is appointed or removed by the Board of Directors, which consists of at least three (3) members, in which one (1) of the members shall have accounting experience.

Article 25. Rights and Duties of Internal Audit Committee

The internal Audit Committee has the following rights and duties:

1. Define the internal accounting system and procedures of the deposit taking microfinance institution;
2. Certify the correctness of daily, monthly, quarterly and annual accounting operations;
3. Advise on internal controls, policy and procedure in the implementation of accounting regime in accordance with regulations issued by Bank of the Lao PDR;
4. Prepare annual audit reports for the Board of Directors' approval;
5. Monitor the implementation of Articles of Association and policies of the deposit taking microfinance institution;
6. Provide advice to executive Officers in resolving outstanding issues found and monitor the resolution of such outstanding issues;
7. Propose to the Board of Directors to approve the recruitment of external auditing firm; and
8. Fulfill other rights and duties as provided for by laws and Articles of Association of the deposit taking microfinance institution.

Article 26. Directors

Directors are responsible for daily management within their scope of rights and duties as stated in the Articles of Association of the deposit taking microfinance institution.

Directors are appointed and removed by the Board of Directors, with a term of office for three (3) years and can be reappointed.

Directors can be members of Board of Directors but shall not a position of the Chairperson or Deputy Chairperson of the Board.

Article 27. Rights and Duties of Directors

Directors have the following rights and duties:

1. Elaborate and implement the Board of Directors' Resolutions;
2. Manage daily operations and be accountable for all of operations of the deposit taking microfinance institution in accordance with the scope of rights and duties assigned by the Board of Directors;
3. Act on behalf of operations in cooperation with and enter into the contract with other parties;
4. Approve recruitment of staff or impose discipline on staffs; implement salary policy, incentive, reward, promotion policy and other policies adopted by the Board of Directors;
5. Propose the appointment or removal of deputy directors for the Board of Directors' approval;
6. Report on business operations of the deposit taking microfinance institution to the Board of Directors;
7. Fulfill other rights and duties as assigned by the Board of Directors and rules of the deposit taking microfinance institution.

Article 28. Establishment of Branches and Service Units

The deposit taking microfinance institution that has a strong financial capability, effectively implement prudential regulations may establish branches or service units by approval the of Bank of Lao PDR.

Section 3

Microfinance Transactions and Maintaining of Prudential Requirements

Article 29. Microfinance Transactions

A deposit taking microfinance institution established under this Decree may be engaged in the following microfinance's business activities:

1. Take saving deposits, fixed deposits and other deposits from general public as authorized by Bank of the Lao PDR;
2. Provide microfinance loan; and
3. Provide other services as authorized by Bank of the Lao PDR.

Article 30. Determination of Interest rate and Service Fees

The deposit taking microfinance institution implement market interest rate and service fees in compliance with regulations periodically issued by Bank of the Lao PDR.

Article 31. Investments in Other Businesses

The deposit taking microfinance institution has a strong financial standing may invest in other enterprise units and invest in securities in conformity with regulations issued by the Bank of Lao PDR.

Article 32. Notification of Contents and Conditions of Transactions

The deposit taking microfinance institution shall regularly notify their customers' contents and conditions related to savings, loans and other services in accordance with regulations issued by Bank of the Lao PDR.

Article 33. Determination of the Time for Provision of Services

The deposit taking microfinance institution shall notify their customers the time for provision of services. In case if there is need to suspend services, it shall notify its customers two (2) days in advance.

Article 34. Combating and Preventing Money Laundering

The deposit taking microfinance institution shall put in place measures to combat and prevent money laundering in accordance with relevant mechanism and applicable laws.

Article 35. Prohibitions

The deposit taking microfinance institution are prohibited from conducting the following transactions:

1. Foreign currency related transactions without permission from the Bank of Lao PD;
2. Provisions of special conditions for related parties to use services of the deposit taking microfinance institution; and
3. Undertaking other transactions without approval from the Bank of Lao PDR.

Article 36. Maintenance of Prudential Requirements of deposit taking microfinance institution

The deposit taking microfinance institution shall implement financial ratio in order to maintain the prudential requirements in accordance with regulations issued by the Bank of Lao PDR.

Article 37. Archiving of Transaction Documents and Information

The deposit taking microfinance institution shall archive documents and create information system at its head office, which comprised of:

1. Articles of Association and other regulations related to its management, including amendments thereto;
2. Book recording of list of shareholders;
3. Minutes and Resolutions of Shareholder's and Board of Directors' meetings;
4. Accounting records clearly and correctly showing business operation situation, transactions and financial status of the deposit taking microfinance institution;
5. Records of transactions, loan documents and list of each individual customer;
6. Other information as determined by the Bank of Lao PDR.

The term for maintaining of document and information shall be in accordance with related regulations.

Article 38. Provision of Loan to Related Parties

A deposit taking microfinance institution may provide loans to related parties, but shall be in accordance with loan regulations applying to general customers.

Section 4

Accounting, Auditing and Disclosure of Financial Information

Article 39. Accounting System and Accounting Year

The deposit taking microfinance institution shall apply the accounting system as defined by relevant laws and regulations issued by the Bank of Lao PDR.

The accounting year of the deposit taking microfinance institution commences from the 1 of January and ends on 31 of December of each year.

Article 40. Income-Expenditure

Income-Expenditure of deposit taking microfinance institution are as follows:

1. Income:
 - Interests;
 - Dividends;
 - Service charges;

- Other income as stated by regulations.

2. Expenditure:

- Interests;
- Fees;
- Business administration and technical fees;
- Amortization of assets;
- Depreciation of fixed assets;
- Reserves for preventing of risks;
- Other expenditures as stated by regulations.

The Board of Directors approves the income-expenditure plan of the deposit taking microfinance institution as proposed by directors.

Article 41. Profits and Losses

Profits and losses of the deposit taking microfinance institution are the differences between annual gross income and expenditure. Net profits are profits after deduction of profit tax.

The deposit taking microfinance institution shall allocate net profits as follows:

- Creation of compulsory reserves;
- Creation of reserves for business expansion and other reserve funds.

The ratio of net profit allocation for each reserve fund is decided by shareholders' meeting in accordance with laws and regulations, the remaining net profits are divided between shareholders.

Losses of the deposit taking microfinance institution are the negative differences between annual gross income and expenditure. In this case, the deposit taking microfinance institution resorts to use reserve fund in accordance with regulations. If the reserves are insufficient, it may be increased based on the decision of shareholders' meeting.

Article 42. External Audit

Each year, the deposit taking microfinance institution shall be audited by external auditors in order to:

1. Assist the deposit taking microfinance institution in maintaining accounting system and implementing correct and complete accounting system;
2. To have opinions to certify completeness and correctness of annual financial statements prepared by the deposit taking microfinance institution;
3. To review completeness of management regulations and internal audit system and provide recommendations to improve it; and
4. To report to the Bank of Lao PDR on fraudulent practices of executive officers or staffs of the deposit taking microfinance institution, irregular management and

operation practices or incompetency of branches which may cause damages to the deposit taking microfinance institution and its branches.

The deposit taking microfinance institution shall complete external audit within April of the following year.

Article 43. Publication of Financial Statements

The deposit taking microfinance institution shall publish its financial status not later than June of the next financial year through appropriate mass media or by electronic means in accordance with regulations issued by the Bank of Lao PDR.

Section 5

Dissolution and Bankruptcy

Article 44. Dissolution and Revocation of Establishment License

The Bank of Lao PDR shall dissolve [deposit taking microfinance institution] and revoke Establishment license of the deposit taking microfinance institution in the following cases:

1. By request of the deposit taking microfinance institution based on the resolution of shareholders' meeting;
2. Violations of regulations as defined in this Decree;
3. Obtaining of establishment license due to provision of false information;
4. No operations within 90 days since the date of granting the establishment license;
5. Merger with other deposit taking microfinance institution results in losing its legal status of the deposit taking microfinance institution or sale of the deposit taking microfinance institution;
6. Without reason, the operations of the deposit taking microfinance institution during the first three (3) years are not carried out in accordance with business plan proposed for the establishment;
7. Decision made by the court for dissolution or bankruptcy

In dissolution or revocation of the establishment license, the Bank of Lao PDR shall establish an Ad-Hoc Committee to be in charge of the settlement. The settlement shall be in accordance with regulations issued by Bank of the Lao PDR.

Article 45. Proposal for Restoration

When a deposit taking microfinance institution faces financial difficulties and lacks security which may lead to bankruptcy, the Bank of Lao PDR shall consider restoring it based on proposal of creditors of the deposit taking microfinance institution or regulators of the Bank of Lao PDR.

Article 46. Restoration Process

After a decision is made, the Bank of Lao PDR shall appoint a Restoration Committee to take a control of the deposit taking microfinance institution to restore it for three (3) months after the date of appointment of the committee. In case of necessity, the time frame shall be extended for another three (3) months per one extension, but in total, the extension shall not exceed one year.

During the restoration process, the deposit taking microfinance institution may carry on its operations but shall comply with the restoration plan.

Article 47. Rights and Duties of Restoration Committee

Reorganization Committee has the following Rights and Duties:

1. Advise the Board of Directors, executive officers of the deposit taking microfinance institution to develop and implement the restoration plan;
2. Instruct the deposit taking microfinance institution to stop operations which are not in line with the reorganization plan and which will damage the deposit taking microfinance institution;
3. Instruct the Board of Directors, executive officer remove the staff who fails to implement the restoration plan;
4. Propose to Bank of the Lao PDR to extend time or terminate the restoration;
5. Responsible for restoration activities;
6. Report their works regularly to the Bank of Lao PDR; and
7. Fulfill other rights and duties as assigned by the Bank of Lao PDR.

Article 48. Bankruptcy

After a completion of restoration, the deposit taking microfinance institution still cannot operate its business on a regular basis, especially could not pay its debts in full and on time, the debt's value is higher than value of assets or less than one fourth of minimum capital requirement as defined by regulations. The Bank of the Lao PDR shall propose to the Court to consider bankrupt of the deposit taking microfinance institution.

Upon the court made a decision to bankrupt the deposit taking microfinance institution, the Bank of Lao PDR shall appoint a Liquidation Committee.

Article 49. Liquidation Committee

Liquidation Committee consists of officials from the Bank of Lao PDR and other concerned sectors both public and private, who have the qualifications and requirements as defined in regulations issued by the Bank of Lao PDR.

Article 50. Rights and Duties of Liquidation Committee

Liquidation Committee has the following Rights and Duties:

1. Being responsible for all [operations and activities] as directors and shareholders of the deposit taking microfinance institution;
2. Continue to operate the deposit taking microfinance institution, especially the receiving of loan repayment, the payments related to contractual obligations, except taking deposits, provision of loans, and other transactions deemed necessary to terminate;
3. Control the accounting books, records and assets of the deposit taking microfinance institution;
4. Protect assets of the deposit taking microfinance institution against lost and damaged;
5. Undertake review and make a list of the creditors, debtors; list the assets and prepare a new balance sheet of the deposit taking microfinance institution and submit a copy to the Bank of Lao PDR and widely publish in the media;
6. Define the amounts of money can be withdrawn by depositors or repaid debtors in order of priority;
7. Cancel the contracts incorrectly entered into by the deposit taking microfinance institution;
8. Report to the Bank of Lao PDR every month on the progress of liquidation; and
9. Fulfill other rights and duties according to laws and regulations.

If the Liquidation Committee violates laws and regulations in exercising its above rights and duties, it shall be subject disciplines imposed by the Bank of Lao PDR.

Article 51. Costs of Liquidation

The deposit taking microfinance institution shall be responsible for the costs of liquidation based on actual situation as considered by the Liquidation Committee.

Article 52. Priority in Liquidation

The liquidation of deposit taking microfinance institution shall be done in the following order of priority:

1. Payment for costs of liquidation process;
2. Repayment for deposits;
3. Payment of salary and wages to staffs of the deposit taking microfinance institution;
4. Fulfillment of the Government obligations that are not contractual;
5. Repayment for secured debts;
6. Repayment for unsecured debts; and
7. Distributions to shareholders of the deposit taking microfinance institution, if there are remaining assets after liquidation.

Article 53. Final Report

After completion of liquidation process, the Liquidation Committee shall make a report to the Bank of Lao PDR and the concerned Office for Judgment Enforcement.

After the Bank of Lao PDR approves the report, the Liquidation Committee shall be released from all responsibilities and the liquidation shall be deemed finished.

Chapter III
Non-Deposit-taking Microfinance Institution

Section 1

Establishment and Operations

Article 54. Establishment

Individuals and organizations who have objective to undertake a business in a non-deposit-taking microfinance institution may establish it in a form of company, except for sole company limited. As for filling of application, consideration of the application for establishment, Articles of Association, fees and service charges related to the establishment application shall be made in accordance with Articles 7, 8, 11 and 13 of this Decree.

Article 55. Registered Capital

A non-deposit-taking microfinance institution shall have a minimum of registered capital of two hundred million (200.000.000) kips or as defined by the Bank of Lao PDR with consent of the Government.

Article 56. Organization

The organizational structure of a non-deposit-taking microfinance institution consists of Shareholders' meetings, Board of Directors, Internal Audit Committee, Directors and some Committees as decided by the non-deposit-taking microfinance institution.

Shareholders' meetings, rights and duties of Shareholders' ordinary or extraordinary meetings, rights and duties of the Board of Directors, qualifications of the members of the Board, Internal Committee and its rights and duties, Directors and rights and duties of the directors shall be complied with as provided in Articles 18, 19, 20, 21, 23, 24, 25, 26 and 27 in Chapter II and Section 2 of this Decree.

Article 57. Scope of Operations

A non-deposit-taking microfinance institution may operate as follows:

1. Provide microfinance loans to its customers;
2. Mobilize fund in form of loan and grant aid from domestic and foreign organizations based on the consent of the Bank of Lao PDR;

3. Open bank account with the Bank of Lao PDR or other domestic commercial banks;
4. Provide other products as approved by the Bank of Lao PDR;
5. Comply with anti-money laundering regulations and other regulations as issued by the Bank of Lao PDR.

A non-deposit-taking microfinance institution may define its interest rates in accordance with mark rate.

Article 58. Application of Provisions for a Deposit-taking Microfinance Institution

Accounting, income and losses, auditing, disclosure of financial statements, liquidation and bankruptcy of a non-deposit taking microfinance institute shall be accordance with provisions applied for a deposit-taking microfinance institution as provided for in Section 4 and 5 of Part II of this Decree.

Chapter IV Microfinance Project

Section 1

Application for Operation of a Microfinance Project

Article 59. Application for Operation of a Microfinance Project

Individuals, entities or organizations who wish to operate a microfinance project shall submit an application to the Bank of Lao PDR.

The application shall consist of the following core documents:

1. Project feasibility study;
2. List of project managers;
3. Certificates of qualifications, experience and biography of managers, including of the project donors;
4. Certificate of financial status of project donors;
5. Recommendations of provincial, city administration where the project is implemented. For the project that has donors as foreign individuals or legal entities, there shall be a certificate of recommendations from the Ministry of Foreign Affairs on the project; and
6. Commitment letter from the project donors.

The operation of a microfinance transactions which are sub- components of a project financed by persons or entities are required to have consent from the Bank of Lao PDR.

Article 60. Feasibility Study of Microfinance Project

The feasibility study of a micro finance shall contain following contents:

1. Purpose and objectives of the project;

2. The general socio-economic situations of the province, city and district, town where the project will be implemented;
3. The organizational and managerial structures the project;
4. The activities and outcome indicators the projects;
5. Financial status of the project;
6. Project termination.

Any amendment to the feasibility study of the project shall be approved by the Bank of Lao PDR.

Article 61. Commitment Letter of Project Donors

The project donor, executive officers of the project shall prepare a Commitment Letter for the operations of the project within the scope of the feasibility study approved by the Bank of Lao PDR. The project donor, executive officers shall take responsibility for damages and liabilities caused by the project.

Article 62. Consideration of the Application for Operation of a Microfinance Project

The Bank of Lao PDR shall consider the application for operation of a microfinance project and inform results in writing to the applicant within sixty (60) days from the date of receipt of correct and complete application;

The Bank of Lao PDR shall issue a license for project operation, if the applicant meets the following conditions:

1. Has a reasonable feasibility study which brings sustainable benefits to the project participants that are not in conflict with the policy and laws and regulations of the Lao PDR;
2. The project donors have good financial status as described in the feasibility study;
3. The project managers have qualifications and experience appropriate for the project activities;

In case when the applicant cannot meet the conditions defined above in this Article, the Bank of Lao PDR shall inform its rejection and the reasons for rejection in writing to the applicant. The applicant can resubmit the application after improving the shortcomings.

Article 63. Fund of Microfinance Project

Upon receiving the license to operate the project, the license holder shall deposit or transfer the project fund in full within ninety (90) days, and use the project fund in accordance to the plan defined in the feasibility study.

Article 64. Revocation of the Project License

Any microfinance project that does not operate in accordance with the feasibility study or commit a serious violation of regulations issued by the Bank of Lao PDR shall have its license revoked.

Section 2

Reporting and Inspection

Article 65. Reporting

The managers of a microfinance project shall report the project activities to the Bank of Lao PDR and the provincial governor's office where the project is located in accordance with the form issued by the Bank of Lao PDR.

Article 66. Inspection

The Bank of Lao PDR, the provincial governor's office, city where the project is located may conduct inspection of the microfinance project if deemed necessary. The project managers shall facilitate and cooperate with such inspection.

Part V

Regulation and Supervision

Article 67. Regulation and Supervision Authority

The Government uniformly supervises the establishment and operations of micro finance institutions by assigning the regulation and supervision functions to the Bank of Lao PDR.

The regulation and supervision authorities consist of:

1. The Bank of Lao PDR;
2. Branches of the Bank of Lao PDR.

Article 68. Rights and Duties of the Bank of Lao PDR

Bank of the Lao PDR has the following rights and duties in regulation of microfinance institutions:

1. Define strategy, policy on banking operations and plan for development of the institution system;
2. Research and issued regulations to elaborate of the strategy, policy on operations of the microfinance institutions;
3. Disseminate, supervise, support and regulate the implementation of laws and regulations on operations of microfinance institutions throughout the country;
4. Administer the microfinance institutions throughout the country;
5. Consider to issue or remove a license for establishment of microfinance institutions;
6. Use measures to prevent acts of violation of laws and regulations of microfinance institutions;
7. Develop and enhance capacity of technical staff of microfinance institutions;

8. Collaborate with other concerned organizations in the performance of its duties;
9. Corporate with international organizations, sign or accede to international agreements on microfinance as assigned by the government;
10. Report results of operations to the Government; and
11. Fulfill other rights and duties as defined in laws and regulations.

Branches of the Bank of Lao PDR fulfill rights and duties to supervise microfinance institutions as assigned by the Bank of Lao PDR which may be detail defined in specific regulations.

Article 69. Rights and Duties of Regulators

Regulators of the Bank of the Lao PDR have the following rights and duties:

1. Regulate the implementation of prudential regulations and related laws and regulations related to microfinance institutions;
2. Inspect accounting records, documents, electronic information and other records of the microfinance institutions;
3. Demand information on services and operations from executive officers, staff and agents of institutions;
4. Conduct on-site inspection of microfinance institution where there is suspect of violation of laws and confiscate documents related to the violation; and
5. Encourage the internal auditor to co-organize meetings with Board of Directors and executive officers of microfinance institutions bi-annually to assess results of implementation of related laws and regulations.

Article 70. Reporting of a microfinance institution

A microfinance institution shall comply with reporting mechanism to the Bank of the Lao PDR as follows:

1. Report on the management, operations and financial position of microfinance institution, including its branches and service units; and
2. Report on the demand of the Bank of Lao PDR. For instance, report on branches and service units, professional service providers and particular service providers of the institutions with the information on the operations and their relation with those entities and others as necessary.

Article 71. Annual Regulation Fees

A deposit taking microfinance institution shall pay annual regulation fees to the Bank of Lao PDR in accordance with regulations issued by the Bank of Lao PDR.

Part VI Disputes Resolution

Article 72. Forms of Disputes Resolution

Resolution of disputes derived from microfinance operations may be resolved by following:

1. Resolving disputes by a conciliation;
2. Resolving disputes by an administrative approach;
3. Resolving disputes by a panel of economic dispute resolution (arbitration);
4. Litigation.

Article 73. Resolving disputes by a conciliations

In case when any dispute arises, the Parties shall use their effort to resolve their disputes by conciliation for mutual benefits.

Article 74. Resolving disputes by an administrative approach

In case when the disputes could not be resolved by a conciliation or mediation, the Parties are entitled to request to the Bank of Lao PDR or concerned sectors to resolve the disputes in accordance with their roles and functions.

Article 75. Resolving disputes by a panel of economic dispute resolution

In case when the Parties failed to resolve disputes by a conciliation or administrative approach, they are entitled to request a Panel of Economic Dispute Resolution Center to resolve the disputes in accordance with laws based on mutual agreement.

Article 76. Litigation

In case when a party feels that he/she could not have justice in the resolution of disputes resolved by concerned agencies was unfair for him/ her, he/ she is entitled to file a claim to a court to consider the matter in accordance with laws and regulations.

Chapter VII

Reward Policy toward Outstanding Persons and Sanction against Violators

Article 77. Rewards Policy toward Outstanding Persons

Individuals, entities and organizations that have outstanding performance in microfinance operations and make significant contribution to microfinance business and preventing violations of laws and regulations in microfinance sector, shall be rewarded and receive incentive policy in accordance with regulations.

Article 78. Sanction against Violators

Microfinance institutions, executive officers, shareholders and staff of microfinance institutions who violate this Decree or regulations on microfinance

institutions issued by the Bank of Lao PDR shall be subject to sanctions by mean of warning or re-education, fines or prosecution depend on severity of the violations.

Article 79. Violations of Prudential Regulations

Any microfinance institution violates prudential regulations on microfinance institutions issued by the Bank of Lao PDR shall be subject to the measures defined in the prudential regulations.

Article 80. Violations of Accounting Principles

Executive officers of microfinance institutions or related parties who make or prepare accounting records wrongly, making counterfeit or destroying accounting books of the microfinance institution or of its customers shall be subject to legal prosecution in accordance with law and regulations on accounting.

Article 81. Violations of Reporting Requirements

Any microfinance institution that violates reporting requirements issued by the Bank of Lao PDR shall be subject to the following measures:

1. For late submission of report, it shall be subject to a written warning. After the written warning, if it continues with violation, it shall be subject to a fine as defined in the regulations issued by the Bank of Lao PDR in each period; and
2. For incorrect report, it shall be a subject to a written warning. After the written warning, if it continues with violation, it shall be subject to a fine as defined in the regulations issued by the Bank of Lao PDR in each period.

Article 82. No Cooperation with Regulators

Any microfinance institution does not cooperate with the regulators shall be subject to writing warning. After the written warning, if it continues with violation, which caused damages to other individuals or entities, it shall be subject to legal proceeding in accordance with laws.

Article 83. Operations of Microfinance Institutions without Approval

Individuals, entities or organizations who undertake microfinance operations without a license from the Bank of Lao PDR shall be fined and/or subject to legal proceedings in accordance with laws.

Chapter VI
Final Provisions

Article 84. Implementation

The Bank of Lao PDR is assigned to take the lead in the implementing this Decree effectively.

Ministries, ministerial equivalent agencies, local authorities, microfinance institutions and concerned parties are strictly obliged to implement this Decree in accordance with their roles and functions.

Article 85. Effectiveness

This Decree shall enter into force after thirty (30) days from the dated of its signature.

Regulations, provision that are in conflict with this Decree shall be cancelled.

The Prime Minister of the Lao PDR

Thongsing TAMMAVONG