

Comparative Analysis of Microfinance Policy Frameworks and Legislation of Selected Countries



IFC Advisory Services
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Azerbaijan & Central Asia
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Support Project

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*Comparative Analysis of
Microfinance Policy Frameworks and
Legislation of Selected Countries*

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Azerbaijan and Central Asia

Azerbaijan
Kazakhstan
Kyrgyz Republic
Mongolia
Tajikistan

Comparative Countries

Bolivia
Bosnia and Herzegovina
Morocco

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PREFACE

International Finance Corporation (IFC), a member of the World Bank Group, initiated the Azerbaijan & Central Asia Microfinance Transformation Support Project (the “Project”) as a part of Advisory Services thanks to support from donor partner the Ministry of Foreign Affairs of the Netherlands. The Project was initially scheduled for approximately 3 years starting from 2008.

The Project is assisting and supporting microfinance institutions (MFIs) based in Azerbaijan, Tajikistan, the Kyrgyz Republic, and Kazakhstan in their transformation processes. It focuses on those institutions that wish to transform their activities from being traditionally credit based to being able to provide their customers with a broader range of financial services. Normally these services would include the acceptance of deposits and could also require the profiling of institutions before they are able to obtain a full banking license.

IFC is assisting the institutions to transform into banks or deposit-taking organizations to become more sustainable. IFC’s goal is to strengthen and build capacity of the selected MFIs, to enable MFIs expand their outreach and services to their clients, and to improve the MFI’s financial performance and sustainability.

The objective of this comparative analysis is to assist the Project in preparation, organization and conduct of a study tour of policy makers and regulators of Azerbaijan, Bosnia and Herzegovina, Kazakhstan, Kyrgyz Republic and Tajikistan to Mongolia. Mongolia was chosen as an excellent model to show these central bank officials the benefits of microfinance banks to a country, and how an MFI can transform into a bank.

The study tour aims further at facilitating a dialogue between policy makers and MFIs to establish a legal framework that may allow MFIs to implement their transformation plans. What follows is a comparative analysis of policy frameworks of Azerbaijan and the Central Asian countries of Mongolia, Kyrgyz Republic, Kazakhstan, and Tajikistan. Bolivia, Bosnia and Herzegovina, and Morocco have been included to draw upon experience from outside the region. The study was conducted from the perspective of transformation so that it may be used to support Project’s work in Azerbaijan & Central Asia.

ACRONYMS

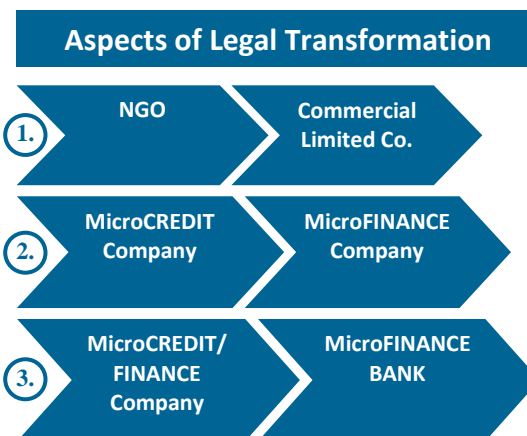
ASFI	Autoridad de Supervisión del Sistema Financiero (Bolivia)
AZN	Azerbaijan Manat
BCB	Bolivian Central Bank
BiH	Bosnia and Herzegovina
CAC	Open Savings and Loans Cooperative (Bolivia)
CAR	Capital Adequacy Ratio
CBAR	Central Bank of Azerbaijan Republic
CGAP	Consultative Group to Assist the Poor
DH	Moroccan Dirham
ESOP	Employee Stock Ownership Plan
FFP	Private Financial Fund (Bolivia)
FRC	Financial Regulatory Commission (Mongolia)
IFC	International Finance Corporation
KGS	Kyrgyzstani Som
KM	Convertible Mark (BiH)
KZT	Kazakhstani Tenge
LLC	Limited Liability Company
MCA	Microcredit Agency (Kyrgyz Republic) / Microcredit Association (Morocco)
MCC	Microcredit Company (BiH, Kyrgyz Republic)
MCF	Microcredit Foundation (BiH)
MCO	Microcredit Organization (BiH, Kazakhstan)
MDO	Microcredit Deposit Organization (Tajikistan)
MFC	Microfinance Company (Kyrgyz Republic)
MFO	Microfinance Organization (Tajikistan)
MLF	Microlending Foundation (Tajikistan)
MFI	Microfinance Institution
MIX	Microfinance Information Exchange
MIV	Microfinance Investment Vehicle
MNT	Mongolian Tugrik
NBCI	Non-Bank Credit Institution (Azerbaijan)
NBFI	Non-Bank Financial Institution (Mongolia)
NBKR	National Bank of the Kyrgyz Republic
NBK	National Bank of Kazakhstan
NBT	National Bank of Tajikistan
NGO	Non-governmental Organization
SDR	Special Drawing Rights
TJS	Tajikistani Somoni
USD	United States Dollar

I. Introduction

1. Globally, microfinance has expanded well beyond the traditional concept of ‘microcredit’, i.e. small working capital loans to low-income persons and informal businesses. Loans for consumption, housing, healthcare, education, and other purposes in addition to financial services such as savings, money transfer services, and insurance are now staple products of many microfinance institutions (MFIs) serving low-income populations. The range of institutional types serving this market has also broadened to include commercial banks, credit unions, cooperatives, and other non-bank financial institutions including social enterprises (nonprofit/for-profit or hybrids) in addition to the non-governmental organizations (NGOs) that traditionally dominated the sector.
2. The number of new entrants in the commercial microfinance sector and the number of NGO MFIs seeking to transform to both commercial entities and regulated, deposit-taking institutions has also increased. This trend towards the mainstreaming of microfinance services has heightened the need for MFIs to operate under sound policy frameworks. As a result, policymakers and regulators globally have become increasingly aware that microfinance should be considered within the overall financial system and that prudential and non-prudential forms of regulation and supervision may be appropriate for the further development of the sector.
3. The Basel Committee on Banking Supervision has also become more directly engaged in this issue. The Committee recently released a document entitled, “Microfinance Activities and the Core Principles for Effective Banking Supervision.” The document affirms the consensus of microfinance experts that non-banks that mobilize deposits from the public should be subject to regulation and supervision commensurate to the type and size of their transactions. It also acknowledges that in addition to protecting depositor funds, official oversight may enhance access to financial services by increasing public confidence in microfinance providers, improving their operational standards and establishing a level playing field for both banks and non-banks.¹
4. Despite the growing consensus around the need for policy frameworks that support the development of microfinance and the principles that should govern its regulation and supervision, many challenges remain. In the first instance, policymakers must decide whether microfinance should be subject to separate specialized legislation or whether MFIs should be regulated under existing policy framework(s). There are arguments for and against each approach and examples of the successful application of both. This issue is ultimately determined based on the specific country context taking into account the existing policy and legal frameworks and the state of development of the microfinance sector.
5. Secondly, policymakers and regulators must decide which organizations and what is regulated? There is strong agreement that the need for regulation and supervision arises when MFIs mobilize deposits. There is also consensus that microfinance differs significantly from traditional financial services requiring tailored regulations that address the specific risks of microfinance that are associated with ownership and governance (particularly among NGO MFIs), credit, liquidity, operations and management, among others. The trend is to regulate according to institutional types which are largely defined according to the kinds of financial services and products that are offered, as well as the legal and regulatory status of the institutions.

¹ BIS, 2010.

6. Policymakers and regulators must also specifically contend with the growing number of credit-only NGO MFIs, which are in effect ownerless, that seek to transform to commercial institutions and regulated, deposit-taking institutions. The figure at right shows the aspects and stages of legal transformation. The various reasons NGO MFIs seek to transform are well noted and primarily include: (i) gaining greater access to funding, both debt and equity, and (ii) expanding the range of financial services to clients, particularly savings, and as a result expanding their overall outreach. When designing and developing policy frameworks for microfinance, policymakers and regulators must also take into consideration the licensing requirements and the specific challenges of NGO MFIs in meeting those requirements.



7. A strategic approach to the development of policy frameworks for microfinance therefore important. The desire to foster greater financial inclusion must be balanced with other objectives such as (i) the protection of depositors and the safety and soundness of financial institutions and the financial system; (ii) consumer protection; (iii) the preservation of the social mission of microfinance activities, among others. This balance, however, is often difficult to strike and the resulting legislation in some instances fosters greater financial inclusion through the expansion of the number and types of institutions engaged in the sector while in others imposes restrictions or requirements that may intentionally or unintentionally hinder further sector development.
8. This comparative study seeks to contribute to the ongoing dialogue and development of policy frameworks specifically in Azerbaijan and Central Asia. Given the IFC’s current transformation work in this area, the countries that have been included in this study are Azerbaijan, Kazakhstan, Kyrgyzstan, Mongolia, and Tajikistan. To incorporate the experience of countries outside this region, the study includes Bolivia, Bosnia and Herzegovina (BiH), and Morocco. All of these countries have a legal system and policy framework that incorporates microfinance. In most cases, these countries have adopted specialized legislation that creates a new legal window for MFIs that is distinct from existing and traditional types of financial institutions. Despite these similarities there are some notable differences among the policy frameworks that are explored in the sections that follow.
9. This study is divided into four sections with three annexes. The first section explores microfinance in Azerbaijan and the Central Asian contexts. The second section analyzes and compares the structure and nature of the various policy frameworks and approaches to regulation and supervision. The third section compares permitted activities and restrictions among the different institutional types. The fourth section looks at ownership requirements and issues related to MFI transformation. Macroeconomic and microfinance specific data for each of the countries has been compiled in tables in Annex 1. Annex II contains legislative profiles of each of the countries organized under various categories. Annex III lists the primary legislation for microfinance for each of the countries. Finally, the body of work reviewed in preparation of this study is noted in the section entitled Resource Materials.

II. Microfinance in Azerbaijan and Central Asia

1. The countries included in this study represent a diverse range of economies and social and political environments. Comparative economic data including population, GNI per capita, and GDP is shown in Table 1 below. The volume of domestic credit as a percentage of GDP is shown as an indication of the relative size of each country's banking sector. This ratio includes all credit on a gross basis (with the exception of credit to the central government, which is net) based on World Bank data. The poverty ratio (measured as the percentage of the population living below the national poverty line) is also shown for each of the countries.

TABLE 1: GENERAL ECONOMIC DATA BY COUNTRY					
Azerbaijan and Central Asia	Population (millions)	GNI per capita (\$)	GDP (\$ billions)	Domestic Credit (% GDP)	Poverty Ratio
Azerbaijan	8.86	\$3,830	\$46.1	17.1%	49.6% (2001)
Kazakhstan	15.7	\$6,160	\$133	33.5%	15.4% (2002)
Kyrgyz Republic	5.28	\$780	\$5.1	14.0% (2007)	43.1% (2005)
Mongolia	2.64	\$1,670	\$5.3	34.4%	36.1% (2002)
Tajikistan	6.84	\$600	\$5.1	27.5% (2007)	53.5% (2007)
Comparative Countries					
Bolivia	9.69	\$1,460	\$16.7	48.4%	37.7% (2007)
BiH	3.77	\$4,250	\$18.5	58.5%	19.5% (2002)
Morocco	31.6	\$2,520	\$88.9	95.5%	19.0% (1999)

Source: World Bank Data Catalogue 2008 data unless otherwise indicated

2. Microfinance was introduced in Azerbaijan and Central Asia as a poverty reduction tool in the late 1990s. In the past two decades, microfinance in this region has experienced significant growth, become more commercially oriented, and in many instances more fully integrated into the formal financial sector. As at the close of 2008, the MixMarket noted a total of 1,516 MFIs² representing a diverse range of institutional types serving more than 1.4 million borrowers and 2.7 million depositors in Azerbaijan and Central Asia.³ Total outstanding loan portfolio stood at \$3.3 billion with outstanding deposits among regulated deposit-taking MFIs (including banks) at \$2.7 billion. Annex I provides more detailed microfinance data by country and by institutional type.
3. Since the end of 2008, the landscape of microfinance providers has expanded even further. Table 2 captures the current landscape of microfinance providers as reported mainly by the central banks of each country. Among the countries of Azerbaijan and Central Asia included in this study, there are currently a total of 25 downscaling banks, 5 specialized microfinance banks, 604 credit unions/cooperatives, and approximately 1,200 other non-bank MFIs in the region totaling over 1,830 institutions. The microfinance landscape from the comparative countries in this study is shown for reference. Keeping in mind that the microfinance markets in Azerbaijan and Central Asia are relatively new, the number of institutions in this region is significant.

² MFIs comprise all types of institutions providing microfinance services including comprising downscaling bank, specialized microfinance banks, credit unions and non-bank financial institutions/NGOs.

³ MixMarket and CGAP, 2009.

TABLE 2: LANDSCAPE OF MICROFINANCE SERVICE PROVIDERS^a BY COUNTRY

Azerbaijan and Central Asia	Deposit-taking Institutions				Credit only MFIs ^b		Total Financial Sector Lending (\$) ^c	% Lending by MFIs ^d
	Downscaling Banks	Microfinance Banks	NBFIs	CUs/Coops	Commercial MFIs	NGOs / Foundations		
Azerbaijan	14 (47 total banks)	1	0	79	18		7.9 billion	6.1%
Kazakhstan	3 (39 total banks)	-	-	166 ^e	511		44.7 billion	3.2%
Kyrgyz Republic	4 (22 total banks)	1	4	230	239	130	532 million	61.3%
Mongolia	40% of banks (estimate)	2	-	209	173		1.8 billion	33.5%
Tajikistan	4 (13 total banks)	1	32	-	42	43	1.4 billion	16.2%
Comparative countries								
Bolivia	0 (12 total banks)	3	5	24	14		8.1 million	21.7%
BiH	0 (21 total banks)	1	-	-	1	18	10.8 billion	9.3%
Morocco	0	0	-	6,895	13		84.9 billion	0.8%

^a Source: Number of institutions based on respective Central Bank country data and MixMarket data.

^b Only Kyrgyz Republic, Tajikistan and BiH make a legal, regulatory distinctions between commercial credit-only MFIs and NGO MFIs/Foundations.

^c Source: 2008 World Bank data for domestic credit provided by the banking sector; 2007 data for Kyrgyz Republic and Tajikistan .

^d Source: Total lending by MFIs as a percentage of total financial sector lending based on 2008 MixMarket and WOCCU data.

^e Credit Partnerships in Kazakhstan operate similar to credit unions but do not accept deposits.

4. As Table 2 shows, there is a diverse range of microfinance services providers in Azerbaijan and the countries of Central Asia. Each has multiple commercial banks engaged in microfinance (referred to here as downscaling banks). With the exception of **Kazakhstan**, each also has at least one commercial bank which specializes in microfinance. Larger numbers of microfinance providers exist in the form of credit unions or cooperatives as well as commercial and non-for-profit credit-only MFIs. Table 2 also compares lending by MFIs to the total domestic credit by the banking sector based on available data from the World Bank. As is shown, the percentage lending by MFIs relative to the overall financial sector lending is often significant as is particularly the case in **Kyrgyz Republic** and **Mongolia**.
5. Despite the growth in number of MFIs, overall outreach among MFIs throughout the region slowed in late 2008 through 2009 due to the global financial and economic crisis. In general, this period saw decreases in remittances and lower incomes, as well as volatility in the foreign currency markets and tightening credit markets. The general result for the region was a dramatic slowdown in portfolio growth, deteriorating portfolio quality, and liquidity constraints particularly among smaller MFIs and new entrants. The full impact of the economic downturn is still unfolding. However, as MFIs emerge from its impact and lenders regain confidence in the region growth rates are expected to steadily rise.
6. The global economic and financial crisis which dramatically impacted commercial banks across the globe also highlights the potential for crisis among MFIs. In general, the performance of microfinance is thought *not* to be highly correlated to fluctuations in the formal economy. This theory was recently tested, however, in countries such as **BiH, Nicaragua, Morocco** and **Pakistan** which underwent severe repayment crises concurrent with the global recession. In a recent study, however, CGAP argues that the repayment crisis was brought on by various other factors including concentrated market competition and multiple borrowing, overstretched MFI systems and controls, and erosion of MFI lending discipline rather than the economic crisis itself.⁴ Their research highlights the importance of market infrastructure to support the MFI sector including reporting standards, standards for external audits, ratings and supervision, and credit bureaus to help mitigate some of these risks.
7. Compared to other regions, the microfinance sector in Azerbaijan and Central Asia is still relatively young. To date, it has avoided the sector-wide stresses and crises experienced in other countries. Efforts are being made in Azerbaijan and Central Asia to develop greater financial market infrastructure for microfinance which often includes some form of regulatory oversight and supervision of MFIs and requirements for reporting, accounting, and audit. In many cases, legislation allowing for the creation of private credit bureaus has been introduced. This may be particularly important in countries where the proliferation of MFIs could lead to concentrated market competition and over-indebtedness by clients. The status of credit bureaus by country is summarized in Table 3 below. Policy measures that increase market infrastructure for microfinance ultimately enhance access to financial services by increasing public confidence, improving operational standards, instilling investor confidence in the sector, as well as mitigating some of the risks associated with the recent sector-wide crises observed in other markets.

⁴ CGAP Focus Note, 2009.

TABLE 3: STATUS OF CREDIT BUREAU SYSTEMS

Azerbaijan and Central Asia	Private Bureau	Public Registry	MFI Participation	Current Status
Azerbaijan	No	Yes	No	Azerbaijan's Centralized Credit Registry (CCR) is used by commercial banks only. Following the adoption of the law <i>On non-bank credit organizations</i> by Parliament in December 2009, CCR became available for use by non-bank financial institutions.. IFC is currently supporting a working group in Azerbaijan that aims to lobby for the adoption of the draft law <i>On Credit Bureaus</i> and establishment of the first private credit bureau in the country.
Kazakhstan	Yes	No	Yes	The First Credit Bureau LLP was founded on July 29, 2004 by the top 7 banks of the Republic of Kazakhstan. Commercial activity commenced in January 2006. The bureau provides reports on legal entities as well as physical persons. As of July 2010, it lists 89 clients including all commercial banks and MFIs, such as Almaty-Finance LLP, Astana-finance LLP, TAT SENIM, Narodny kredit LLP, and KazMicroFinance LLP.
Kyrgyz Republic	Yes	No	Yes	There is currently one private credit bureau, Credit Information Bureau Ishenim, and the National Bank is developing its own public credit registry. Both the banking and microfinance institutions exchange credit information through CIB Ishenim on a voluntary basis. There is no specific law that governs credit bureau operations in the country.
Mongolia	No	Yes	Yes	The Bank of Mongolia established the Credit Information Bureau (CIB) in 1996. All commercial banks and NBFIs are required to report credit information to the CIB. The Credit Information Center Limited (the company formed to operate the private Credit Information Bureau) held its first meeting on 9 January 2009. The company is proceeding to recruit a project manager and finalize a mandate with the IFC to conduct an international tender for a strategic operating partner and investor.
Tajikistan	No	No	No	To facilitate the first private credit bureau's establishment and implementation, IFC initiated a working group. After Credit Information Bureau (CIB) Tajikistan's registration in April 2010, the working group aims to work further on the bureau's business plan, tender for the CIB technical partner and shareholder, and its subsequent implementation. Both banking and microfinance institutions will share credit information through CIB Tajikistan.
Comparative countries				
Bolivia	Yes	Yes	Yes	By the late 1990s, Bolivia had a credit bureau system for formal banks. This was strengthened as a result of the microfinance repayment crisis in the late 1990s and early 2000s for greater reporting by FFP and microfinance NGOs. Subsequently, private credit bureaus were introduced in addition to the public credit registry.
Bosnia and Herzegovina	Yes	Yes	Yes	BiH had no central credit bureau until 2009. MFIs were unable to check how much debt a loan applicant already had elsewhere. Commercial banks, which had moved into microfinance-size loans, could not tell how much microfinance debt a borrower had accumulated. MFIs are not obliged to report to the bureau, making it impossible to determine the full extent of borrowing from multiple lenders.
Morocco	Yes	No	Yes	The Moroccan Credit Bureau began its operations in 2005. The first private credit bureau, Experian, was established in October 2009. Following the sector-wide crisis, four largest MFIs were integrated into the credit bureau. This is a major step forward to improve credit analysis as well as to control clients' over-indebtedness.

8. While the microfinance sector itself is still very young, the policy frameworks for microfinance in Azerbaijan and the Central Asian countries are even newer and still evolving. Table 4 shows the primary specialized legislation for microfinance in each country, the date it was introduced, and the date of the most recent amendment, if any. As shown, **Azerbaijan** introduced specific legislation for non-bank credit institutions as recently as 2009. The **Kyrgyz Republic** introduced amendments to its 2002 Law *On Microfinance Organizations* also in 2009. As shown, the trend is to enact specific legislation to govern MFIs that are not governed under laws such as those for traditional financial institutions such as banks and credit unions. Bolivia is the only example where the laws governing MFIs are incorporated under the general banking law which governs banks and as well as all other financial institutions.

TABLE 4: PRIMARY LEGISLATION FOR MICROFINANCE			
Azerbaijan and Central Asia	Primary Legislation Covering Non-bank MFIs	Date Introduced	Most Recent Amendment
Azerbaijan	Law On Non-Bank Credit Institutions	2009	-
Kazakhstan	Law No. 392 on Microcredit Organizations	2003	-
Kyrgyz Republic	Law No. 124 on Microfinance Organizations	2002	2009
Mongolia	Law on Non-bank Financial Institutions	2003	-
Tajikistan	Law on Microfinance Organizations	2004	-
Comparative Countries			
Bolivia	Law No. 1488 on Banks and Financial Institutions	1993	2008
BiH	Law on Microcredit Organizations	2000	2006
Morocco	Law No. 18-97 on Microcredit Associations	1999	2004

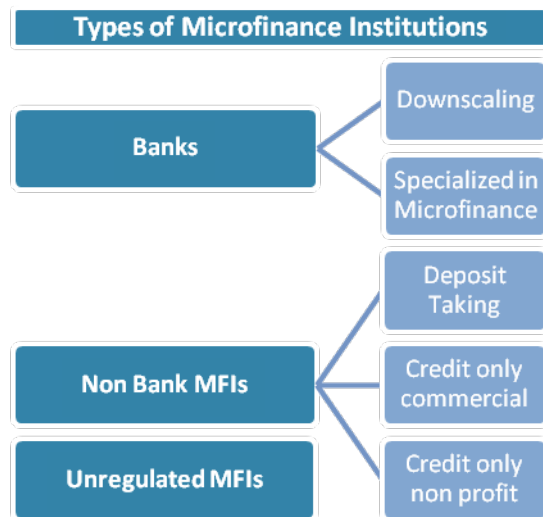
9. In the following sections, the policy frameworks is reviewed in more detail with a particular focus on the specialized legislation for MFIs. In each case, the legislation sets out the general standards and requirements that MFIs must meet for licensing, the permitted activities and restrictions. To create a full picture of all legal and regulatory implications for MFIs in any particular country, a much more extensive analysis of the legislation including a review of all secondary legislation (often adopted by the central bank or other regulatory and/or supervisory body) would be necessary. While this is beyond the scope of the current study, this comparative analysis of the primary legislation raises many of the issues confronted by policymakers and key areas that must be addressed when designing a policy framework that is supportive of growth in the sector.

III. Policy Frameworks, Licensing Regime, and Minimum Capital Requirements

1. As documented in other comparative studies, there is no universal approach to policy frameworks for microfinance. There is also no consensus that one approach is better than another. Valuable lessons can be drawn, however, from general examination of the policy frameworks and legislation that have been adopted in various countries and reviewing the impact on the microfinance sector based on the experience of MFIs themselves and country-level case studies. Ultimately, policymakers must make decisions based on their own resources and capacity, the local context including the nature and size of the microfinance sector, and their strategic objectives in terms of financial inclusion and consumer protection when designing a policy framework for microfinance.
2. Each of the countries included in this study takes a ‘tiered’ approach to the policy framework. The alternative approach is to create a policy framework which regulates microfinance as a separate business line that cuts across different institutional types. Under the tiered approach, the policy framework defines specific institutional types or legal or regulatory ‘windows’ which are often differentiated by: (i) permitted activities (mainly, deposit-taking versus credit only), (ii) legal status (commercial versus non-for-profit), and (iii) approach to regulation and supervision (full prudential regulation or licensing only versus unregulated). The policy framework may be comprised of a single law governing all financial institutions (as in the case of **Bolivia**) or be comprised of a series of laws that govern and define the different institutional types (i.e. separate laws for banks, credit unions, microcredit organizations, etc.). Annex III lists the legislation that comprises the policy frameworks for each of the countries.
3. The policy framework also sets the general criteria surrounding licensing, ownership and management, capital requirements, reporting, compliance, sanctions and related corrective actions, as well as approach to regulation and supervision for each institutional type. As the ‘tier’ or institutional type approaches commercial bank status the requirements for licensing and standards of regulation and supervision are generally higher. The challenge of this ‘tiered’ approach for regulators is to provide clear distinctions and relevant categories that lack ambiguity (for both institutions and consumers), and provide institutions with clear paths when seeking to transform or move from one institutional type or regulatory window to another. For their part, MFIs must consider a host of legislation, including rules, norms, directives, resolutions and other regulations when considering the full implications of seeking a particular license or transforming to another institutional type.
4. The policy frameworks that govern the financial sector, however, do not set out all requirements for MFIs. The policy frameworks for microfinance discussed here are part of a broader set of laws to which MFIs must adhere in their respective countries such as a general company law, tax laws, labor laws and civil codes, to name a few. While these laws are not examined in this study, they are important to consider particularly for MFIs that may have enjoyed certain benefits of their legal status including tax concessions and lower registration fees, etc., and wish to transform both their legal status and/or become a licensed deposit-taking financial institution. Policymakers must also consider that although the policy framework for microfinance may create an enabling and sound environment for the sector, the broader legal environment may pose significant barriers and challenges for NGO MFIs seeking entry.

5. The policy frameworks of the countries included in this study include a full spectrum of institutional types. These institutional types can be divided into three broad categories as shown in the diagram at right and described below.

Banks: Financial institutions engaged in a full range of financial intermediation activities and subject to both prudential and non-prudential regulation and supervision. In terms of microfinance, they may include **downscaling banks** (banks whose activities include some microfinance activity) and **specialized microfinance banks** (banks whose activities are solely or primarily microfinance). Specialized microfinance banks are typically subject to the same regulation as other banks. Banks are typically legally registered as joint stock companies.



Non-bank MFIs: Regulated institutions that are subdivided into those that are (i) authorized to collect deposits without being subject to the same regulation and supervision as banks; (ii) regulated and commercial, but credit only; and (iii) regulated but credit only and registered as non-for-profit. Non-bank MFIs are typically registered as joint stock companies or limited liability companies.

Unregulated MFIs: Institutions that engage in lending activities and are not authorized to collect deposits. They are also unregulated and not considered part of the formal financial sector. This may include a range of institutions with varying legal status from commercial limited liability companies to foundations, NGOs or associations.

6. Table 5 below shows the wide variety of institutional types providing microfinance services among the countries included in the study. The table shows the primary distinctions among the institutional types based on permitted activities, and legal and regulatory status. The primary legislation for microfinance for each of these countries, discussed earlier, governs the institutional types highlighted in **bold**. Typically, commercial banks, credit unions and cooperatives, and at times NGO MFIs are governed under separate laws. It is uncommon for laws governing these institutional types, however, to restrict them from engaging in microfinance activity and therefore it is not surprising that such institutional types also provide microfinance services in these countries.

7. Table 5 also highlights the variation in number of defined institutional types for microfinance service providers by country. As is shown, in **Morocco** there are only two institutional types for MFIs – cooperatives and microcredit associations. The regulatory window for commercial banks is not an option for MFIs in Morocco primarily due to interest rate caps on loans. In **Kazakhstan** there are three institutional types including banks, credit partnerships and microcredit organizations. **Kyrgyz Republic** has the largest number of institutional types with five different regulatory windows for MFIs including banks, credit unions, microfinance companies, microcredit companies and microcredit agencies. Specific examples follow highlighting this diversity and the primary distinctions among institutional types.

TABLE 5: TYPES OF MICROFINANCE INSTITUTIONS BY COUNTRY

Azerbaijan and Central Asia	Banks in Microfinance	Regulated Non-Bank MFIs			Unregulated MFIs
		Deposit-taking	Commercial	Not-For-Profit	Credit only
Azerbaijan	1. Downscaling Banks 2. Specialized MF Banks	3. Credit Unions	4. Non-Bank Credit Organizations		-
Kazakhstan	1. Downscaling Banks	-	2. Credit Partnerships		3. Microcredit Organizations
Kyrgyz Republic	1. Downscaling Banks 2. Specialized MF Banks	3. Microfinance Company 4. Credit Union	5. Microcredit Company	6. Microcredit Agency	-
Mongolia	1. Downscaling Banks 2. Specialized MF Banks	3. Savings and Credit Coops	4. Non-Bank Financial Institutions		-
Tajikistan	1. Downscaling Banks 2. Specialized MF Banks	3. Microcredit Deposit Org.	4. Microlending Organizations	5. Microlending Foundations	-
Comparative countries					
Bolivia	1. Downscaling Banks 2. Specialized MF Banks	3. Private Financial Funds 4. Cooperative Assoc.	-	-	5. NGOs
BiH	1. Downscaling Banks 2. Specialized MF Banks	-	3. Microfinance Companies	4. Microfinance Foundations	-
Morocco	-	1. Cooperatives	2. Microcredit Associations		-

8. Among the selected countries, **Azerbaijan, Mongolia, Kazakhstan** and **Morocco** are notable for defining the fewest institutional types of MFIs. The specialized legislation for microfinance in each of these countries defines only one category or type of MFI. In **Kazakhstan**, the primary category of MFI is the Microcredit Organization (MCO). In **Morocco**, this category of MFI is the Microcredit Associations (MCAs). In **Azerbaijan** and **Mongolia**, the legislation incorporates MFIs into a broader category of financial institutions – Non-Bank Credit Organization (NBCOs) in Azerbaijan and Non-Bank Financial Institution (NBFI) in Mongolia. In all of these countries, the category restricts MFIs from engaging in deposit-taking activities and no distinction is made for legal status (commercially-oriented versus non-for-profit institutions). However, **Azerbaijan** specifically requires commercially oriented NBFIs to register as limited liability companies.

9. In terms of the approach to regulation and supervision, the Central Bank in **Azerbaijan** is the licensing, regulatory and supervisory authority for all institutional types including banks, credit unions and NBCOs. In **Mongolia**, banks are regulated by the Bank of Mongolia and the Financial Regulatory Commission (FRC) regulates other financial institutions including NBFIs. In **Morocco**, Bank Al-Maghrib regulates and supervises credit institutions (banks) and MCAs. The Ministry of Finance, however, approves the registration of MCAs and the Federation of Microcredit Associations is responsible for supervising and ensuring compliance with regulations. In **Kazakhstan**, banks are regulated by the National Bank. As a striking exception to the other countries, MCOs in **Kazakhstan** are not considered part of the formal financial system and are exempt from norms set by National Bank. MCOs are monitored instead by the Government Statistics Agency and supervised by the Ministry of State Revenue through local tax authorities.

10. In **BiH**, the 2000 Law *On Microcredit Organisations* (MCOs) established two types of MCOs that are distinguished primarily by legal status. MFIs were established historically as NGOs often funded by international organizations but existed under no specific policy framework and took on a variety of legal forms. Today, MCOs must register as either for profit MicroCredit Companies (MCCs) or non-profit MicroCredit Foundations (MCFs). Both institutional types are restricted from taking deposits. The new microfinance law adopted in 2006 stipulates the specific licensing requirements and conditions for transformation of NGO MFIs in **BiH** first into nonprofit MCFs and then MCCs, which can take the form of a limited liability company (LLC) or a joint stock company (JSC). The [Banking Agency of BiH](#) is responsible for the regulation and supervision of banks. MCOs must obtain a permit to engage in microcredit activity from the Banking Agency.

11. The **Kyrgyz Republic** and **Tajikistan** take a similar approach to **BiH** by distinguishing two types of credit-only MFIs based primarily on legal status (commercial versus non-for-profit). Both countries, however, also define a third type of deposit-taking MFI. The 2002 Law No. 124 *On Microfinance Organizations in the Kyrgyz Republic* defines the following three different types of MFIs: (i) a microcredit agency (MCA), a credit-only, non-profit organization; (ii) a microcredit company (MCC), a credit-only, commercial entity, and (iii) a microfinance company (MFC), a deposit-taking, commercial entity. Neither the MCA nor the MCC is subject to prudential regulation but require a certificate issued by the Central Bank to commence operations. MFCs, however, require a license from the Central Bank and are subject to prudential requirements.

12. Similar to the **Kyrgyz Republic**, in **Tajikistan** the 2004 Law *On Microfinance Organizations* identifies three types of MFIs: a microcredit deposit organization (MDO), a microlending

organization (MLO) and a microlending foundation (MLF). Of the three, only the MDO can take deposits on the basis of a license issued by the Central Bank. A MLO is defined as a commercial microfinance organization licensed by the Central Bank and engaged in providing micro-loans and other services. MDOs and MLOs can be founded as closed joint stock companies or limited liability companies. A MLF is non-commercial and formed as a social foundation. MLFs only require a certificate issued by the Central Bank to engage in providing micro-loans and other services.

13. In contrast to the other countries, the **Bolivian** model is unique in that it does not have separate, specialized legislation that governs MFIs. In the Bolivian model, all financial institutions are governed under one law –*Law On Banking and Financial Institutions*. This includes Banks, Private Financial Funds (FFPs), Savings and Home Loan Societies, Credit Unions and other private finance companies. FFPs are the primary way microfinance has mainstreamed into the formal financial sector in Bolivia. The Autoridad de Supervisión del Sistema Financiero (ASFI) regulates banks and all other financial institutions including FFPs. FFPs are legally authorized to mobilize deposits from the public. NGO MFIs in Bolivia are unregulated and fall outside the policy framework for financial institutions.
14. Perhaps the most striking difference in the policy frameworks among the selected countries is found between **Bolivia, Kyrgyz Republic and Tajikistan** which have a separate regulatory window for non-bank deposit-taking MFIs and **Azerbaijan, BiH, Kazakhstan, Mongolia and Morocco** which do not. While there may be various reasons for this, the lack of a separate window for regulated, deposit-taking MFIs means that MFIs seeking to mobilize deposits in the later set of countries must meet the full regulatory requirements of a bank. Generally speaking, this may be a deliberate way that governments and regulatory authorities limit the number of entrants into deposit-taking activities. On the other hand, if the requirements to become a bank cannot be met by even the strongest MFIs then the particular framework may hinder the growth of successful MFIs.
15. In addition to the areas discussed above, each tier or regulatory window is further distinguished by the associated licensing regime. Regulatory authorities often set specific requirements in terms of capital, qualified staff, and infrastructure including secure physical infrastructure as well as appropriate technology as part of the licensing requirements. In some instances, the licensing regime may require transforming NGO MFIs to meet specific performance benchmarks such as in **BiH** where MFIs seeking a license from the Banking Agency are required to have three years of profitability in addition to meeting other quantitative and qualitative standards. General licensing requirements by country are shown in the profiles in Annex II.
16. Minimum capital requirements are perhaps the most distinct of the licensing requirements and the yet another way in which one institutional type is clearly distinguished from another. Minimum capital requirements can be used by regulators to encourage or discourage the number of entrants both among banks and MFIs. In terms of microfinance, it is often argued that minimum capital should be set at levels low enough to promote the entry of MFIs with the capacity to intermediate deposits to enter into the formal financial sector.⁵ At the lower end, very low minimum capital requirements for entry for credit only MFIs may lead to a proliferation of small MFIs as is the

⁵ Ledgerwood and White, p40.

case in **Kazakhstan**. Table 9 below provides a comparative review of minimum capital requirements for MFIs versus banks in the selected countries.

TABLE 6: MINIMUM CAPITAL REQUIREMENTS OF BANKS AND MFIs				
Azerbaijan and Central Asia	Banks	NBFIs (Deposit-taking)	NBFIs (Credit only)	NGOs / Foundations
Azerbaijan	\$12.2 million	-	Not defined	-
Kazakhstan	\$33 million (national) ^a \$13 million (regional)	-	-	1000x MCR ^b
Kyrgyz Republic	\$1.3 million (existing) \$7.8 million (new)	\$550 thousand	\$220 thousand	-
Mongolia	\$5.8 million	-	\$145 thousand ^c	-
Tajikistan	\$6.9 million	\$800 thousand	\$200 thousand	-
Comparative Countries				
Bolivia	\$8 million	\$916 thousand	-	-
BiH	\$10.4 million	-	\$345 thousand	\$35 thousand
Morocco	\$24 million \$12 million (lending only)	-	-	None

^a Banks based in Astana and Almaty

^b Approximately \$9,600 based on Monthly Calculating Rate (MCR) of 1,413 Kazakhstani Tenge for 2010

^c Lower requirements for NBFIs outside the capital

17. As can be seen, there is also often a significant jump from the minimum capital requirements from a credit-only MFI to a licensed deposit-taking institution. This jump is considerably higher in the countries where the only option for full financial intermediation is as a licensed commercial bank. This jump is much lower in **Bolivia**, **Kyrgyz Republic** and **Tajikistan** which all have separate regulatory windows for deposit-taking MFIs. For example, in **Bolivia** the minimum capital requirement for FFPs is US \$916 thousand. In **Kyrgyz Republic**, the minimum capital requirement for microfinance companies taking deposits is US \$550 thousand. And, in **Tajikistan**, the minimum capital requirement for microcredit deposit organizations is US \$800 thousand.

18. These amounts are in marked contrast to the other countries where a full banking license is required to take deposits. At the top end of the scale is **Kazakhstan** where minimum capital requirements reach US \$33 million which can be well out of the reach of even the largest MFIs. The other countries too have arguably high minimum capital requirements that discourage the entry of non- traditional providers of financial services. The question for regulators is whether to work with existing standards and encourage the microfinance sector to merge and consolidate as an approach to meet these capital requirements or to create new legislation that determines a separate regulatory window with lower minimum capital requirements that strong, credit-only MFIs can meet that will allow them to engage in deposit activities.

19. As stated in the outset and demonstrated through the above analysis, there is no standard approach to policy frameworks for microfinance. What is notable here, however, is that with very little exception the countries included in this study have developed specialized legislation for microfinance and require MFIs, at the very least, to be licensed by the regulatory authority. On the positive side, this official oversight may enhance access to financial services by increasing public confidence in MFIs, improving operational standards and helping to establish a level playing field for all actors engaged in the sector. However, such policy frameworks are only effective if MFIs can meet the licensing requirements and if specific requirements and restrictions on MFI activities do not hinder innovation, growth and the ability of MFIs to transform.
20. This raises the question as to whether there has been a rush to regulate in these environments?⁶ It has been argued that overburdening MFIs with exhaustive regulatory requirements including extensive reporting, operational standards and other business limitations may stifle small and innovative forms of microfinance from developing.⁷ For the most part, the policy frameworks of Azerbaijan and the other Central Asian countries included in this study are too new to be formally assessed in this regard. However, it is worth exploring further some of the specific requirements and restrictions that may hinder MFI development, innovation and their ability to transform. In the next section, this issue is explored further through a deeper look at the permitted activities and associated restrictions among the different institutional types as set forth in the policy frameworks from the selected countries.

⁶ This issue is discussed in detail in Robert Peck Christen and Richard Rosenberg's, "The Rush to Regulate: Legal Frameworks for Microfinance", 2000, CGAP.

⁷ Ledgerwood and White, p25.

IV. Permitted Activities and Restrictions

1. As noted in the previous section, the regulatory windows or types of MFIs identified in the policy frameworks are often distinguished by permitted activities namely deposit-taking versus credit only operations. However, in almost all cases, the policy frameworks in each of the selected countries also impose specific limits on lending thereby making further distinction between one classification of MFI and the next. These restrictions come in multiple forms but are primarily a means to limit risk concentration. The limits on loan size may also be a means to encourage MFIs to serve their target market. The limits can be on the size of loans that may be granted either as an amount or as percentage of capital. An unintended consequence of such restrictions may be in limiting the MFIs ability to grow.
2. Table 7 below provides examples of the various lending restrictions imposed by financial regulation for each of the countries in this study. Included are the regulations for banks as well as MFIs that are regulated under the policy frameworks. It is interesting to note the difference in restrictions imposed for MFIs versus banks. In many cases, the restrictions within various classifications of MFIs are different as well. As noted, such limits can be a further method to distinguish between one classification of MFI and another or between regulatory tiers in an attempt to discourage regulatory arbitrage, i.e. institutions registering under a lower classification or tier to evade regulatory requirements.
3. As is noted, a number of countries including **BiH**, **Kazakhstan**, **Morocco** and **Tajikistan** impose limits in terms of amounts to a single borrow. For **Kazakhstan**, the single borrower limit is set against the monthly calculating rate and is therefore variable. In **Morocco**, the limit is fixed at approximately \$6,000 for microcredit associations. In **Tajikistan**, the amount is set at the equivalent of \$20,000 for all three categories of MFI and is additionally set at 1% of capital for microcredit deposit institutions. Interestingly, in **BiH** the maximum amount to a single borrower is different for commercial versus non commercial MFIs. MCCs can lend up to \$35,000 to a single borrower whereas MCFs can only lend to a maximum of \$6,900.
4. The remaining countries set single borrower limits for MFIs in terms of percentage of capital with the exception of **Azerbaijan** which has not as yet imposed limits. In **Bolivia**, for FFPs the single borrower limit is set at no more than 1% of equity with personal guarantee and up to 3% if secured. In the **Kyrgyz Republic**, microfinance companies are limited to up to 10% and in **Mongolia** that limit is set at 30% of capital. While such restrictions may not be a particular issue of MFIs, they may help decrease ambiguity between one classification and another and make it unattractive for traditional financial institutions to apply for a license under a tier or classification that was designed for MFIs.
5. When it comes to banks, single borrower limits tend to be set higher and are expressed only as a percentage of capital. The one exception is **Mongolia** where the limit to a single borrower is set at 20% of capital for banks but 30% of capital for NBFIs which likely takes into account the much lower capital of NBFIs. In **Bolivia**, the single borrower limit for banks is set at 20% of equity as opposed to 1-3% for FFPs. **Morocco** also sets its single borrower limit to 20% of capital. In **BiH**, the single borrower limit for banks is set at 40% of core capital. In **Kyrgyz Republic**, the amount

of individual investments or loans to any non-banking organization is restricted to 20% of capital and 60% in aggregate.

TABLE 7: SINGLE BORROWER LENDING RESTRICTIONS

Azerbaijan and Central Asia	Institutional Type	Single Borrower Amount	Single Borrower % of Capital	Other
Azerbaijan	Bank	-	-	-
	NBCI	-	-	May be set by NBAR
Kazakhstan	Bank	-	-	-
	MLO	Less than 8000 times MCR ^a	-	-
Kyrgyz Republic	Bank	-	Less than 20% of capital	-
	MFC (deposit-taking)	-	Less than 10% of capital	Less than 50% of capital unsecured
	MFC (credit only)	-	Less than 10% of capital	Less than 30% of capital unsecured
Mongolia	Bank	-	Less than 20% of capital	-
	NBFI	-	Less than 30% of capital	Aggregate <70% of capital
Tajikistan	Bank	-	-	-
	MDO	\$20,000	Less than 1% of capital	-
	MLO and MLF	\$20,000	-	-
Comparative countries				
Bolivia	Bank	-	Less than 20% of equity	-
	FFP	-	Less than 1% of equity (unsecured) Less than 3% of equity (secured)	-
BiH	Bank	-	Less than 40% of core capital	Less than 5% core capital unsecured Sum of large credits less than 300% of core capital
	MCC	\$35,000	-	-
	MCF	\$6,900	-	-
Morocco	Banks	-	Less than 20% of capital	-
	MCAs	DH 50,000 (\$ 6,000)	-	-

^a Approximately, \$ 76,800 based on Monthly Calculating Rate (MCR) of 1,413 Kazakhstani Tenge for 2010

6. The laws may also establish other forms of lending limits. In **Bolivia**, for example, banks are restricted from lending to directors, executive staff, or related parties. The combined loans to non-executive employees must no more than 1.5% of equity and no more than 10% of that amount to any individual employee. In **Kazakhstan**, banks may lend to insiders but not with preferential terms. The **Kyrgyz Republic** also allows lending to insiders but includes a number of restrictions. **Mongolia** limits banks to total loans and guarantees to individual director, officer, shareholder or board member to 5% of capital. For NBFIs, this amount is set at 10% again likely taking into account the lower capital requirement.
7. When it comes to the provision of other financial services besides credit and savings, the countries in this study follow a similar pattern as when addressing the issue of savings. Generally speaking, the more likely the country to allow non-bank financial institutions to mobilize deposits the more like the legal framework will also allow other financial activities such as foreign exchange transactions and money transfer services. The countries that have specific definitions of microfinance activities also tend to be the most restrictive in terms of the offering of other financial services. Table 8 below summarizes other permitted activities and other restrictions on activities by country.
8. **Kazakhstan, BiH, and Morocco** are the most restrictive in terms of allowing services other than credit. In **BiH** in addition to lending, MCOs can only engage in other activities that serve the activity of microcrediting such as credit consultations, business counseling and technical assistance. This is similarly the case in **Kazakhstan** where in addition to lending MCOs can engage in temporary investing, transactions with pledged property, advisory services regarding microloans, leasing and provide free training. In **Morocco**, MCAs must have as its sole objective the distribution of micro-credits. As stated previously, in all three countries MFIs are expressly forbidden from mobilizing deposits.
9. **Mongolia** and **Azerbaijan** have laws for non-bank credit institutions rather than defined 'microfinance' laws and generally allow for greater number of permitted activities although deposit-taking is expressly forbidden for non-bank credit institutions in both countries. In **Azerbaijan**, NBCIs are divided into two groups – those with the right to accept collateral deposit and those without that right. NBCIs that receive license for provision of loans can also undertake following activities: (i) purchase and sale of liabilities (factoring, forfeiting); (ii) leasing; (iii) register of notes; (iv) provision of guarantee; (v) provision of services of insurance agent; and (vi) provision of consulting services on financial, technical and management issues to borrowers and collective borrowers. **Azerbaijan** is also the only country to list insurance agent services among the list of permissible activities. The NBCI Law does not provide for foreign exchange operations. In **Mongolia**, NBFIs can also engage in lending, factoring, financial leasing, issuing guarantees, issuing payment instruments, electronic payment, remittance services, foreign currency exchange, trust services, investment into short-term financial instruments, and provision of investment or financial consultancy.

TABLE 8: PERMITTED ACTIVITIES AND EXPLICIT RESTRICTIONS AMONG MFIs

Azerbaijan and Central Asia	MFI Type	Deposits	Foreign Exchange	Payment/ Remittance	Insurance Agent Services	Factoring/ forfeiting	Leasing	Register of Notes	Provision of Guarantee	Business Counseling
Azerbaijan	NBCI	No	No	-	-	Yes	Yes	Yes	Yes	-
Kazakhstan	MCO	No	-	-	-	-	Yes	-	-	Yes
Kyrgyz Republic	MFC	Yes	-	-	-	Yes	Yes	-	-	-
	MCC	No	-	-	-	Yes	Yes	-	-	-
	MCA	No	-	-	-	-	-	-	-	-
Mongolia	NBFI	No	Yes	Yes	-	Yes	Yes	-	Yes	Yes
Tajikistan	MDO	Yes	Yes	Yes	-	-	Yes	-	Yes	Yes
	MLO	No	-	-	-	-	Yes	-	-	Yes
	MLF	No	-	-	-	-	Yes	-	-	Yes
Comparative countries										
Bolivia	FFP	Yes	Yes	Yes	-	No	Yes	-	Yes	-
BiH	MCC	No	No	No	No	No	No	No	No	Yes
	MCF	No	No	No	No	No	No	No	No	Yes
Morocco	MCA	No	No	No	No	No	No	No	No	Yes

10. As noted earlier, **Bolivia, Kyrgyz Republic and Tajikistan** each have a regulatory window for non-bank deposit-taking institutions. They also generally allow such institutions to engage in a broader range of financial services apart from savings and loans. In **Bolivia**, FFPs are permitted to carry out almost all financial intermediation and related services of banks including lending, issuing guarantee bonds, foreign exchange operations and leasing, and money transfer services. To engage in the following activities, FFPs must seek special permission: (i) reception of funds for checking accounts, (ii) issuing credit cards, (iii) investment of capital belonging to financial services institutions. In **Kyrgyz Republic**, MFCs may conduct both secured and unsecured lending, accept time deposits (two years after granting of license), conduct factoring and leasing and issue shares and debt securities. In **Tajikistan**, MDOs are able to engage in most forms of financial intermediation including cash operations, issuing guarantees, issuing and accepting payment cards, clearing and settlement operations. After one year under supplemental license a MDO can operate activities in foreign currency.
11. **Bolivia** is a particularly interesting model and has been included here as an example of a country with a more mature microfinance market. Bolivia’s policy framework has been widely discussed and is often used as an example for other countries seeking an approach to the regulation of microfinance. As discussed earlier, Bolivia is unique in that it does not have a specialized law that specifically governs MFIs and largely leaves credit-only NGOs unregulated. Among the countries included here, **Bolivia** also has the highest concentration of specialized banks and other non-bank deposit-taking institutions engaged in the microfinance sector. Table 9 highlights the scale of savings outreach of deposit-taking institutions in **Bolivia** as of 2009 according to MixMarket data. It should be especially noted that each of the banks included here transformed from credit-only NGO MFIs and are now among the largest institutions in terms of deposit outreach in the country.

TABLE 9: OUTREACH AMONG DEPOSIT-TAKING MFIs IN BOLIVIA			
Institution	Legal Status	Depositors	Deposits \$'000
Banco FIE	Bank	314,989	242,472
BancoSol (2008 data)	Bank	209,845	261,673
Coop Fátima	Coop	42,137	42,049
Coop Jesús Nazareno	Coop	133,390	96,836
EcoFuturo FFP	FFP	84,476	79,09
Fassil FFP	FFP	27,827	77,728
Fortaleza FFP	FFP	33,353	55,630
Banco Los Andes ProCredit	Bank	381,416	415,389
Prodem FFP	FFP	569,829	338,991

12. As demonstrated in these country examples, there is a general hierarchy when it comes to allowing MFIs to provide other services. The countries which define microfinance more narrowly in their laws (**Kazakhstan, BiH, and Morocco**) and specifically in terms of credit only tend to be the most restrictive. Countries which allow non-bank deposit-taking institutions (**Bolivia, Kyrgyz Republic and Tajikistan**) tend to be more open. For NGO MFIs wishing to transform this is

significant. Policy frameworks that create a more level playing field for banks and MFIs are more desirable to transforming NGO MFIs. Policies that are too restrictive may prevent MFIs from being competitive and achieving their dual goals of broadening outreach through a range of demand-driven financial services and sustainability. Allowing MFIs to provide a range of financial services promotes greater competition which is good for consumers and provides MFIs with alternative sources of income which promotes their long-term sustainability. Undue restrictions may ultimately hinder both growth and innovation in the sector.

V. Ownership Issues and NGO MFI Transformation

1. Ownership and shareholder issues are the last topic to be considered here. Ownership issues are typically addressed in the policy frameworks as part of the general licensing requirements. To limit ownership risks to financial institutions, the policy frameworks typically place specific requirements and/or restrictions on ownership. This may include: (i) limiting the maximum shareholding by any one investor; (ii) requiring more than one owner; (iii) requiring approval of the founders and initial owners of the institution; and/or (iv) requiring approval of shareholders that acquire more than a certain percentage ownership of the institution.
2. In some cases, the law may prohibit certain types of shareholders. For example, in **Azerbaijan** political parties, public associations, funds and other non-commercial organizations are prohibited from becoming shareholders of banks. In **Mongolia**, legal person financed from the state budget, and religious, or political, or nongovernmental organizations are prohibited from incorporating banks or NBFIs. Table 10 highlights some of these ownership requirements and restrictions established in the policy frameworks by country. The majority of the restrictions apply to banks. However, there are also a number of similar restrictions on ownership for MFIs.

TABLE 10: OWNERSHIP REQUIREMENTS	
Country	Ownership requirements and restrictions
Azerbaijan	Banks must be established by at least three legal entities and/or natural persons. Political parties, public associations, funds and other non-commercial organizations can not be the shareholders of a bank. Foreign ownership in the banking sector is limited to 30% on an aggregate basis. NBCIs can be established by legal entities and individuals of the Republic of Azerbaijan and (or) foreign countries, as well as international organizations in the organizational-legal form for legal entities envisaged in the Civil Code of the Republic of Azerbaijan.
Bolivia	Fit and proper test is required for shareholders of banks and FFPs.
BiH	For banks, no legal person may acquire significant voting rights in a bank, or increase the amount of his ownership of the bank's voting shares or capital in such a way that the thresholds of 10%, 33%, 50% and 66.7% are reached or exceeded without obtaining the approval from the Banking Agency. MCOs require three natural persons (irrespective of nationality) as founders. An MCF forming a new MCC must acquire ownership share of at least 51% of a capital in a newly established MCC.
Kazakhstan	Bank ownership may be state, private, joint-stock, joint, and foreign-owned. Ownership of more than 10% of voting shares requires specific approval.
Kyrgyz Republic	For banks, founders and shareholders of a bank may be legal entities and individuals that might be resident or non-resident. For MFCs, legal entities may hold a maximum of 20% of voting share. Investors owning more than 5% of stock can be examined for their reputation and financial condition.
Mongolia	For banks, individuals, legal persons or organizations, with the exception of those financed by the State budget, public charity fund-raising or religious organizations, shall be entitled to incorporate a bank. For NBFIs, a legal person financed from the state budget, a religious, or political, or nongovernmental organizations shall be prohibited from engaging in non-bank financial activities.
Morocco	For banks, shareholders owning, directly or indirectly, 5% or more of the outstanding shares or voting rights must inform Bank Al-Maghrib; acquisition of 10% or more of the outstanding shares of a credit establishment requires prior consent from Bank Al-Maghrib; and acquisition of a controlling interest in a bank requires prior approval by Bank Al-Maghrib.

TABLE 10: OWNERSHIP REQUIREMENTS

Country	Ownership requirements and restrictions
Tajikistan	<p>Constitutors and shareholders of a bank can be legal entities and individuals - residents and non-residents.</p> <p>A microfinance organization can be founded by individuals and legal entities, residents and non-residents. Any individual, legal entity or any group of individuals and legal entities acting in concert intending to enter into a transaction that would result in such individual, legal entity or group controlling more than 20% of the voting shares of an MDO, shall submit a written application for approval to the NBT.</p>

3. Among the selected countries, **BiH**, **Tajikistan** and the **Kyrgyz Republic** have the most explicit ownership requirements and restrictions for MFIs. As noted in the above table, **BiH** requires three natural persons as founders of MCOs. **BiH** also requires MCFs seeking to transform into commercial MCCs to retain at least 51% ownership share of the newly established MCC. In **Tajikistan**, the law stipulates that ownership control of more than 20% of the voting shares of a MDO must have the approval of the Central Bank. The law in the **Kyrgyz Republic** for MFCs is even more restrictive. There, the law states that for MFCs legal entities can be founders and shareholders but to a maximum of 20% of voting shares. Although such restrictions seek to prevent ownership risk, they may also inadvertently create challenges for NGO MFIs that seek to transform and take an ownership stake in the newly formed MFI.
4. For transforming NGO MFIs, given their often unclear ownership structure and legal status, ownership related issues are particularly challenging. In fact, it has been noted that it can be more difficult to establish a balanced shareholder and ownership structure in a MFI than to raise sufficient capital to meet minimum capital requirements.⁸ In environments with numerous NGO MFIs seeking to transform, ownership issues may therefore present significant challenges for all stakeholders involved including the NGO itself, the founders of the NGO as well as for the new funders and investors, and policymakers.
5. Typically, when NGO MFIs transform they transfer assets to a newly created commercial entity in exchange for shares. While this transaction is generally straightforward, it raises many ownership issues and questions as to the continued role of the NGO MFI. Some key issues include: (i) how to treat the donated or ‘social’ equity of the NGO MFI; (ii) whether the NGO MFI will continue to engage in lending activities effectively competing with the new entity; (iii) whether the NGO MFI will have the resources to continue investing its proportionate share in the new entity; and (iv) whether the regulatory agency will approve the NGO MFI as a shareholder if it seeks to transform to a deposit-taking entity.
6. Many of these issues can create obstacles to transformation and there is a growing body of evidence that the failure to align the interests of the various stakeholders involved can derail the transformation process. While these issues are dealt with in greater detail elsewhere,⁹ this study

⁸ Ledgerwood and White, p40.

⁹ See Kate Lauer, “Transforming NGO MFIs: Critical Ownership Issues to Consider,” CGAP Occasional Paper, June 2008 and Calmeadow and the Center for Financial Inclusion’s “Aligning Interests: Addressing Management and Stakeholder Incentives During Microfinance Institution Transformation,” 2009.

considers the ways in which the policy frameworks in the selected countries impact the ownership of transforming NGO MFIs and sites examples of specific ways some countries seek to address these issues. The policy frameworks themselves are largely silent on these issues and the questions are largely answered on a case-by-case basis as they arise. Only in rare circumstances have these issues been raised or addressed by the policy frameworks. Specific examples from the countries included in this study highlight some of these issues further.

7. In **BiH**, under existing law the Banking Agency requires NGO MFIs to track and report on donated equity separately from other funding sources. It also expressly prohibits the use of donated capital for fixed assets or the coverage of losses from business activities unless stipulated by the agreement on donated funds. They also specifically and narrowly define microfinance as the “provision of microcredits with the objective of improving the financial position of the microcredit beneficiaries, increasing employment, providing the support to the development of entrepreneurship and acquisition of profits.”¹⁰ In so doing, they seek to maintain the social orientation of MCOs. This is also done through the other lending restrictions and restrictions on other financial service activities discussed earlier.
8. Unlike the other policy frameworks included in this study, the specialized microfinance law in **BiH** is much more specific about the conditions for the transformation of a microcredit organization. The law requires that the NGO MFI first become a microcredit foundation (MCF) and then a for-profit microcredit company (MCC). As stated earlier, the law also stipulates that the ownership of the MCC by the MCF should be greater than 51%. MCFs are allowed to sell shares in an MCC but the MCF must retain at least 51% ownership. It is also noted, that the Banking Agency expects the licensed MCFs to continue lending operations even after the MCC has been established as the MCF license is conditioned on the lending activity.¹¹ These requirements could spark unintended operational and financial risks with negative consequences for both entities if not managed properly.
9. In **Azerbaijan**, the government has also sought specifically to preserve the funds contributed by international organizations for the social benefit of the Azeri people. The NBCI Law states that funds given away by international organizations, governments of foreign states and other donors, as well as revenues gained from them shouldn’t be taken away by NBCI from the territory of the Republic of Azerbaijan. This has meant NBCIs (now registered as commercial LLCs) allocating granted funds to local NGOs and/or making amendments to their charters to ensure that grant funds and retained earnings remain permanently in Azerbaijan. The final arrangement between the NGOs and the government was based on the following principles: (i) the donated equity includes the grant funds and proceeds of these funds; (ii) the funds are to be used for the original purpose, remain in Azerbaijan, and be earmarked in the charter and financial statements; (iii) in the case of dissolution, the funds are transferred to a special designated fund or the state budget; and (iv) any changes to the charter are to be done in consultation with and approval from the

¹⁰ Article 2 of the Law *On Microcredit Organizations*, “Official Gazette of the Federation of BiH”, No. 59/06.

¹¹ Wills, p.5-6.

Republican Commission for International Humanitarian Assistance.¹² As reported by a MixMarket report, it appears that rather than adopting a uniform legal solution, the Government is reaching individual agreements with each microcredit NBCI on the issue.¹³

10. In other countries, the issue of ‘social’ capital is unaddressed by the policy frameworks. Its treatment is therefore largely determined by the policies of the parent NGO and other investors rather than according to specific legal requirements. Laws can also be vague with respect to the issue of the ongoing activities of the NGO MFI. The post-transformation activities of the NGO MFI are therefore also largely determined by the founder or parent NGO. Additional examples, particularly from Bolivia, highlight some of these issues.
11. In 1992 in **Bolivia**, the licensed entity BancoSol, was capitalized by the NGO MFI Prodem with a 41% ownership. Prodem received permission from its grant funders to apply major donations it had received to equity shares in the bank. The other equity investors included Acción International and Calmeadow, the equity investment arm of the Inter-American Development Bank, and individual private investors (many of whom were board members). For a while, Prodem ran a parallel structure of microlending activities in addition to having ownership in BancoSol. It is noted, however, that the risk can be very high in such situations and hard to manage especially if there is overlap in management or other conflicts of interest between the two entities. This was resolved, however, as Prodem obtained its own FFP license in 2000 and continued operations as an entirely separate organization.¹⁴
12. Similar challenges have also been raised with respect to transformation in **Morocco**. Again, as elsewhere there is not a clear path for transformation and perhaps less so in Morocco in certain respects. According to a diagnostic of the sector the law which governs microcredit associations theoretically allows transformation, however, MCAs are restricted from existing for any purpose other than disbursing microcredits and related business advice. This again suggests that the MCA would need to continue to engage in microlending to some extent. Furthermore, Bank Al-Maghrib would have grounds to refuse an application for a banking license by an MCA with limited financial resources as a major shareholder.¹⁵ More importantly in the Moroccan environment, as mentioned earlier, the new commercial entity would be subject to the same regulatory requirements as all other credit institutions including the interest caps which to date has been a strong disincentive to transformation.
13. Unfortunately these examples serve to highlight the problems associated with ownership of commercial financial institutions by NGO MFIs rather than provide practical solutions. As shown, some policy frameworks are beginning to address this issue and specify pathways for transformation although a full and unencumbered solution has yet to be identified. Each case is

¹²“ Guideline on regulation of legal status of non-bank credit organizations founded as non-profit organization with humanitarian status by international and local humanitarian organizations,” Government of Azerbaijan, April 2009.

¹³ MIX, 2010.

¹⁴ Meagher, 2006.

¹⁵ Reille and Lyman, 2005.

likely to continue to be managed separately as the issue arises and based on the specific characteristics of the legal environment and the nature of the NGO MFI and its founders.

14. This leads to a final issue related to ownership - the participation of employees in the ownership structure of transformed NGO MFIs. Transformation inevitably introduces new owners, new governance structures and new stakeholders including local legal and regulatory authorities. The original donor that initially capitalized the NGO MFI must now balance their objectives with those of these new stakeholders. Key employees and managers, who once exerted great influence over the organization, may also find the new structures of ownership and governance and associated requirements challenging. Failure to align the interests of the new stakeholders with the old can lead to breakdowns and failures in NGO transformations.¹⁶ Programs that enable employee participation in the ownership of the new entity seek to build employee buy-in by providing financial incentives. The effectiveness of such programs, however, continues to be debated.
15. Employee stock ownership plans (ESOPs) are the most common approach to employee participation in ownership. They can vary significantly, however, in their design. Again, the legislative frameworks are quite silent on this issue although none of the countries included in this study prohibit ownership by employees. Again, if the ownership is significant then they would be subject to the same scrutiny as other large shareholders as prescribed by the respective regulations. Currently, there are only a couple noted examples from the sample countries of NGO MFI transformations that have incorporated staff into their ownership structures.
16. **Bolivia** provides the first such example as the executive management team was given nearly a 6% stake in BancoSol when it transformed from the NGO MFI Prodem. A further example comes from **Mongolia**. The XacBank, which emerged from the merger of the two largest NBFIs in the country, provides for employee ownership participation through a special purpose company called the Employee Investment Trust. This entity is owned by employees and capitalized with the shares they hold in the banking group. The idea is to create a sustainable mechanism that aligns the interests of the banking group with that of employees and provide employees participation in the strategy of the organization. As opposed to treating each participating employee as a separate shareholder, this structure treats them as a single shareholder eliminating the need to work with each employee separately.¹⁷
17. While seeking to align the interests of employees to the orientation of the new financial entity, the drawbacks of ESOPs are also well noted. Employees may be unfamiliar with ESOPs thus requiring much education to be well understood and appreciated. The real financial benefit may also be elusive. Unless there is a mechanism for employees to divest of their shares, such shares are likely to be illiquid. Newly transformed NGO MFIs may take years to pay dividends and if there is a downturn in the business the ESOP may actually cause a negative incentive.

¹⁶ This is the subject of a recent paper by Calmeadow and the Center for Financial Inclusion which attempts to frame the issue and promote more discussion and research.

¹⁷ XacBank Annual Report 2008.

18. For these reasons, alternative mechanisms have been recommended instead of ESOPs.¹⁸ Primary among these are profit-sharing schemes in the transformed MFI. Such schemes do not allow for participation in the overall strategy of the MFI but they can offer a strong financial incentive which may produce the desired effect. Again, there is too little evidence to draw firm conclusions on the issue of ESOPs. However, it highlights the importance of ownership and alignment of interests to a successful transformation and the need to carefully think through the use of ESOPs or other ownership strategies while transforming NGO MFIs.

¹⁸ Ledgerwood, p208.

VI. Conclusion

1. As this study shows, there is a range of practices and experience among the selected countries in terms of policy frameworks for microfinance. All of the countries in this study take a tiered approach to the policy frameworks and many of the countries have adopted specialized legislation for microfinance. Differences among the frameworks also emerge, however, as some frameworks create a diverse range of institutional types and permitted activities while others narrowly define and limit the activities of MFIs. Overall, the policy frameworks serve to promote greater participation by MFIs in the formal financial sector. However, the policy frameworks can have varying results and although the microfinance sectors in many of these countries are still very young valuable lessons begin to emerge.
2. **Participation by MFIs in the formal financial sector is good for all stakeholders.** The policy frameworks encourage previously unregulated MFIs to improve the quality of their operations, governance and management and become a licensed part of the formal financial sector. Stronger management and governance in turn supports the efforts of regulators and supervisors to create a sound financial system. Official oversight and greater transparency in the sector enhances access to financial services by increasing confidence in microfinance providers both by the general public and by investors in the sector. Participation by MFIs in the formal financial sector also promotes fair competition among banks and other financial institutions that provide microfinance.
3. **Microfinance providers encompass a broad range of institutional types.** The risk of a tiered policy framework for microfinance with a limited range of institutional types is that it may impede innovation and growth, stifle competition, and encourage regulatory arbitrage in the sector. Based on the experience of the countries included in this study, MFIs encompass a broad range of institutional types from commercial banks to other non-bank deposit-taking institutions to commercial and non-for-profit NBFIs. Narrow definitions of microfinance and undue requirements and restrictions on licensing may hinder the formalization of MFIs into the sector. Policy frameworks need to take into account the diverse range of microfinance providers and incorporate the necessary flexibility to avoid the pitfalls of a tiered approach.
4. **Deposit taking by MFIs does not pose an inherent risk to the financial system.** There is a growing trend and consensus around the development of policy frameworks that provide a separate regulatory window for non-bank deposit-taking institutions. Several of the countries included in this study have taken this approach. As demonstrated by Bolivia, MFIs that mobilize deposits can be significant providers of deposit services to large numbers of people. Key to policymakers is ensuring appropriate licensing requirements including minimum capital requirements and appropriate allocation of supervisory resources. Lower capital requirements for deposit-taking MFIs may be appropriate given the limited scope and size of MFI operations.
5. **Microfinance needs to be supported by market infrastructure.** As recent repayment crises in microfinance markets throughout the world have shown, it is important to invest in market infrastructure to support the MFI sector. Policy frameworks, reporting standards, standards for external audits, ratings and supervision for microfinance all play a key role in creating a sound

environment for the provision of microfinance. The participation of MFIs in credit bureaus can also help mitigate some of the risks associated with recent repayment crises including market concentration by MFIs and over-indebtedness by clients

6. **The ownership nature of NGO MFIs requires special consideration in policy frameworks for microfinance.** To incorporate greater numbers of NGO MFIs into the formal financial sector, ownership requirements need to be flexible. Transformed NGO MFIs are likely to have both for-profit and non-for-profit owners. For profit owners are likely to have greater financial resources and the appropriate incentives to ensure proper governance and management of the transformed institution. As part of the licensing process, standards to address the treatment of ‘social’ capital and the ongoing role of the NGO MFI as an owner and potential competitor of the newly transformed MFI are important to ensure a fair and unencumbered process. Flexible licensing regimes that allow transforming NGO MFIs to strengthen their ownership and governance structures over time may also be appropriate.
7. With no expected slowdown in the number and growth of MFIs in the region, governments and regulators in Azerbaijan and Central Asia will be challenged to balance a safe and sound financial sector with their financial inclusion objectives. As the sector is still relatively young, it can draw upon the experience of countries elsewhere both in terms of sound policy development as well as the pitfalls of inappropriate or inadequate legislation. In most cases, this may require: (i) further developing specialized knowledge of the risks associated with microfinance, particularly microlending; (ii) changing the way resources are allocated; and (iii) investing further in financial market infrastructure. It will also mean providing clearer laws and regulations that address a range of microfinance activities and institutional types, and providing pathways and removing obstacles for institutions that seek transformation to commercial and deposit-taking institutions.
8. There is a gathering body of work that documents and addresses many of the specific challenges that confront MFIs and policymakers as microfinance more fully integrates with the formal financial sector. Deeper analysis of the policy frameworks and regulatory environments would be required to make specific recommendations for improving the policy frameworks for microfinance for a particular country. This study, however, provides some insight to the general trends among the policy frameworks and has pointed to a number of emerging lessons. As many of the microfinance markets discussed here are relatively young, additional lessons are likely to emerge. Continued Dialogue among the key stakeholders remains critical as the objectives of each must be balanced if a more open yet sound financial sector development is to be achieved.

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Annex I: Economic^a and Microfinance Data^b by Country

AZERBAIJAN AND SELECT CENTRAL ASIAN COUNTRIES						
AZERBAIJAN						
Population (millions): 8.68 ✕ GNI per capita: \$3,830 ✕ GDP (\$ billions): \$46.1 ✕ Poverty Ratio ^c : 49.6% (2001)						
Provider	Legal Status	Number of Institutions	Active Borrowers	Portfolio, \$	Depositors	Deposits, \$
Downscaling Bank	Bank	9	13,070	39,795,750	0	0
Specialized Microfinance Bank	Bank	1	69,144	207,141,975	22,641	26,977,778
Non-bank credit organization	NBFI	16	178,731	216,728,380	0	0
Credit Union ^d	CU	48	9,432	17,374,706	9,432	4,607,616
TOTAL		74	270,377	481,040,811	32,073	31,585,394
KAZAKHSTAN						
Population (millions): 15.7 ✕ GNI per capita: \$6,160 ✕ GDP (\$ billions): \$133 ✕ Poverty Ratio: 15.4% (2002)						
Provider	Legal Status	Number of Institutions	Active Borrowers	Portfolio, \$	Depositors	Deposits, \$
Downscaling Bank	Bank	3	3,430	76,185,265	0	0
Microcredit Organization	NBFI	512	38,480	320,940,062	0	0
Credit Partnership	CU	166	10,346	993,305,452	0	0
Gov't Development Institution	Gov't Fund	1	24,907	59,317,626	0	0
TOTAL		682	77,163	1,449,748,405	0	0
KYRGYZ REPUBLIC						
Population (millions): 5.28 ✕ GNI per capita: \$780 ✕ GDP (\$ billions): \$5.1 ✕ Poverty Ratio: 43.1% (2005)						
Provider	Legal Status	Number of Institutions	Active Borrowers	Portfolio, \$	Depositors	Deposits, \$
Downscaling Bank	Bank	4	15,687	81,326,020	0	0
Specialized Microfinance Bank	Bank	1	36,821	58,809,006	0	0
Microcredit Agency	NBFI	119	12,064	9,456,543	0	0
Microcredit Company	NBFI	170	210,074	153,341,192	0	0
Microfinance Company	NBFI	2	150	1,010,061	0	0
Credit Union	Credit Union	248	18,788	22,375,611	1,072	462,608
TOTAL		544	293,584	326,318,433	1,072	462,608
MONGOLIA						
Population (millions): 2.64 ✕ GNI per capita: \$1,670 ✕ GDP (\$ billions): \$5.3 ✕ Poverty Ratio: 36.1% (2002)						
Provider	Legal Status	Number of Institutions	Active Borrowers	Portfolio, \$	Depositors	Deposits, \$
Specialized Microfinance Bank	Bank	2	382,978	596,071,282	2,383,258	599,468,377
Microfinance Organization	NBFI	3	9,273	8,483,359	0	0
TOTAL		5	392,251	604,554,641	2,383,258	599,468,377
^a Country data from World Bank Data Catalogue 2008 data unless otherwise indicated; ^b Microfinance Data from MixMarket 2008 data unless otherwise indicated; ^c Poverty ratio is percentage of population at national poverty line; ^d Data on credit unions from WOCCU;						

TAJKISTAN						
Population (millions): 6.84 ✕ GNI per capita: \$600 ✕ GDP (\$ billions): \$5.1 ✕ Poverty Ratio: 53.5% (2007)						
Provider	Legal Status	Number of Institutions	Active Borrowers	Portfolio, \$	Depositors	Deposits, \$
Downscaling Bank	Bank	4	33,990	114,799,481	27,427	152,848,406
Specialized Microfinance Bank	Bank	1	13,153	32,550,227	7,077	11,154,118
Microloan Foundation	NBFI	41	67,316	19,048,225	0	0
Microloan Organization	NBFI	37	62,773	47,929,945	0	0
Microdeposit Organization	NBFI	14	23,705	12,177,799	128	2,636,945
Credit Union	CU	7	401	1,935,482	154	1,632,662
TOTAL		104	201,338	228,441,159	34,786	168,272,131
COMPARATIVE COUNTRIES						
BOLIVIA						
Population (millions): 9.69 ✕ GNI per capita: \$1,460 ✕ GDP (\$ billions): \$16.7 ✕ Poverty Ratio: 37.7% (2007)						
Provider	Legal Status	Number of Institutions	Active Borrowers	Portfolio, \$	Depositors	Deposits, \$
Downscaling Bank	Bank	0	0	0	0	0
Specialized Microfinance Bank	Bank	2	220,785	637,147,966	448,743	579,193,201
Private Financial Fund	NBFI	5	263,670	634,422,360	732,009	511,760,467
Credit Union ^d	CU	23		306,485,786	428,825	337,849,602
NGOs	NGO	14	316,896	176,245,357	0	0
TOTAL		44	801,351	1,754,301,469	801,351	1,428,803,270
BOSNIA AND HERZEGOVINA						
Population (millions): 3.77 ✕ GNI per capita: \$4,520 ✕ GDP (\$ billions): \$18.5 ✕ Poverty Ratio: 19.5% (2002)						
Provider	Legal Status	Number of Institutions	Active Borrowers	Portfolio, \$	Depositors	Deposits, \$
Specialized Microfinance Bank	Bank	1	65,227	225,933,333	113,096	238,007,801
Microcredit Company	NBFI	2	65,881	197,347,199	0	0
Microcredit Foundation	NBFI	10	309,053	579,708,569	0	0
TOTAL		13	440,161	1,002,989,101	113,096	238,007,801
MOROCCO						
Population (millions): 31.6 ✕ GNI per capita: \$2,520 ✕ GDP (\$ billions): \$88.9 ✕ Poverty Ratio: 19.0% (1999)						
Provider	Legal Status	Number of Institutions	Active Borrowers	Portfolio, \$	Depositors	Deposits, \$
Downscaling Bank	Bank	0	0	0	0	0
Finance Company	NBFI	0	0	0	0	0
Cooperative (2009) ^e	Coop	6,895	0	-	358,798	760,165,702
Microcredit Association	NGO	11	1,245,850	694,543,920	0	0
TOTAL		6,906	1,245,850	694,543,920	358,798	760,165,702

^eCooperative data from Morocco's Office du Developpement de la Coopération representing number of members and total share capital.

Annex II: Country Profiles

A. AZERBAIJAN	
Exchange Rate: USD 1= 0.82 Azerbaijani Manat	
Legal Framework	
Description of legislation	The Law <i>On Banks and Banking Activities</i> of the Azerbaijan Republic” (as amended through 2008) governs the activities of banks and licensing of non-banking credit organizations. The Law <i>On Non-Bank Credit Institutions</i> (NBCIs) governs specialized credit organizations that provide loans and undertake other activities based on special permission (2009). The Law of the Republic of Azerbaijan <i>On Credit Unions</i> (as amended through 2001) governs the activities of credit unions. The Guideline on regulation of legal status of non-bank credit organizations founded as non-profit organizations with humanitarian status (2009) addresses the issue of legal status of MFIs. Other relevant laws include Law of the Republic of Azerbaijan <i>On the Central Bank of the Republic of Azerbaijan</i> (2004), the Law <i>On Deposit Insurance</i> (2007) and <i>The Civil Code</i> .
Types of MFIs foreseen in the legislative framework	Institutions providing microfinance in Azerbaijan include banks that engage in microfinance through downscaling or as specialized microfinance banks, NBCIs, and credit unions.
Definition of MFI	The legislation does not define microfinance. The Law defines non-bank credit institutions as ‘a specialized credit organization that provides loans and undertakes other activities in line with the Law based on special permission (license).’ The Law on NBCIs does not apply to credit unions or pawnshops.
Current landscape of microfinance activity	According to the Central Bank of Azerbaijan Republic (CBAR), as of the first quarter of 2010 there were a total of 145 credit organizations having a license for banking. Among the 47 banks there are 14 downscaling banks and 1 specialized microfinance bank (AccessBank). In addition, there are 79 credit unions and 18 NBCIs listed as financed by international humanitarian organizations.
Requirements for Entry	
Licensing	To obtain a bank license and permit, founders of the bank or their representatives authorized in accordance with legislation shall submit the written application to the CBAR. The pro-forma and contents of application, attached documents must comply with requirements, determined with regulatory documents of the CBAR. NBCIs must submit documents for license to the CBAR including: (i) application signed by founder(s); (ii) copies of certificate on legal registration; (iii) bank document certifying payment of minimum capital; (iv) information on organizational structure; (v) information on professional eligibility of managers; (vi) information on financial sources and major indicators of credit policy.
Legal form(s)	Banks must be established by at least three legal entities and/or natural persons in the form of public joint-stock company. NBCIs can be established by legal entities and individuals of the Republic of Azerbaijan and (or) foreign countries, as well as international organizations in the organizational-legal form for legal entities envisaged in the Civil Code of the Republic of Azerbaijan. Non-commercial NBCIs can be established only in the form of Fund by international organizations in line with contracts signed by the Republic of Azerbaijan, as well as non-governmental organizations financed through state budgets of foreign countries. Non-commercial NBCIs can’t establish or participate in commercial organizations. Commercial NBCIs must register as limited liability companies. Under current law, a limited liability company may be transformed into a joint stock company.
Minimum capital requirements	For banks, minimum capital is AZN 10 million (\$12.2 million). The CBAR does not enforce capital requirements for NBCIs although the law states that minimum amount of chartered (venture) capital of NBCIs and minimum requirements for initial property formed by them are defined by the CBAR.

Regulation and Supervision	
Regulatory and supervisory bodies	The CBAR regulates banks and NBCIs. A new Law <i>On Non-Bank Credit Institutions</i> was adopted in December 2009, and licensing rules and prudential requirements for NBCIs are currently being developed. The benefits to microfinance NBCIs of having "humanitarian status" were revoked in 2008. Under the current legislation, commercial NBCIs must be legally registered as limited liability companies. This results in institutions registering with the Ministry of Justice and applying for licenses from the CBAR. The NBCIs are now subject to tax and in some cases taxes have been imposed retroactively. ¹⁹
Permissible Activities	Banks, unless restricted by the bank license obtained from the CBAR, may engage in the activities listed in Article 32 of the Law on Banks including deposit services, award of credits (without or without guarantee), cash services, foreign exchange services, safe services, and other typical financial activities of banks. NBCIs are divided into two groups – those with the right to accept collateral deposit and those without that right. NBCIs that receive license for provision of loans can also undertake following activities: (i) purchase and sale of liabilities (factoring, forfeiting); (ii) leasing; (iii) register of notes; (iv) provision of guarantee; (v) provision of services of insurance agent; and (vi) provision of consulting services on financial, technical and management issues to borrowers and collective borrowers.
Restrictions on Activities	No bank can be engaged in wholesale or retail trade, production, transportation, agriculture, development of mineral resources, construction and insurance. NBCIs cannot mobilize deposits from legal entities or individuals.
Capital adequacy ratio	By normative act.
Interest rate caps	None.
Lending Limits	For NBCIs, not set in NCBI law; may be set by the CBAR.
Limits on Insider Lending	For banks, total liabilities to insiders < 20% of capital. For NBCIs, limits not set in NCBI law; may be established by the CBAR.
Reporting requirements	Banks must meet all reporting requirements stipulated by the CBAR and in addition must have an external audit. The CBAR currently has 25 regulations under the category of bookkeeping and accounting. NBCIs must submit to the CBAR financial report approved by external auditor within 5 months after the end of the financial year and print it in mass media. NBCIs must submit prudential reports on its activities to the CBAR within 10 days after the end of each reporting quarter.
Other	Credit information sharing is done through the Central Bank of Azerbaijan's Centralized Credit Registry (CCR), which has been used by commercial banks only. Following the adoption of the Law <i>On Non-Bank Credit Organizations</i> by Parliament in December 2009, Non-bank financial institutions will be able to use CCR. There are no private credit bureaus in Azerbaijan. IFC is currently supporting a working group in Azerbaijan that aims to lobby for the adoption of the draft Law <i>On credit bureaus</i> and establishment of the first private credit bureau in the country.
Ownership	
Requirements and restrictions	Banks must be established by at least three legal entities and/or natural persons. Political parties, public associations, funds and other non-commercial organizations can not be the shareholders of a bank. Foreign ownership in the banking sector is limited to 30% on an aggregate basis. NBCIs can be established by legal entities and individuals of the Republic of Azerbaijan and (or) foreign countries, as well as international organizations in the organizational-legal form for legal entities envisaged in the Civil Code of the Republic of Azerbaijan.

¹⁹ MIX, 2009.

Social Capital	<p>In consultation with the microfinance sector, the government issued its <i>Guideline on regulation of legal status of non-bank credit organizations founded as non-profit organizations with humanitarian status by international and local humanitarian organizations</i> in April 2009. The document provides guidelines on (i) transformation of non-bank credit organization LLCs founded by international and local humanitarian organizations to either non-commercial or commercial entities and (ii) the treatment of ‘social’ capital.</p> <p>The NBCI law states that Funds given away by international organizations, governments of foreign states and other donors, as well as revenues gained from them shouldn’t be taken away by NBCI from the territory of the Republic of Azerbaijan. This has meant NBCIs (now registered as commercial LLCs) allocating granted funds to local NGOs and/or making amendments to their charters to ensure that grant funds and retained earnings remain permanently in Azerbaijan. As reported by MixMarket, it appears that rather than adopting a uniform legal solution, the Government reaches individual agreements with each microcredit NBCI on this issue.²⁰</p>
ESOPs	No references.
Transformation Matters	
Prudential Requirements	Transforming NBCIs must meet all licensing and prudential norms for commercial banks. The CBAR lists 30 regulations (some for credit unions) under this category.
Procedures for termination/liquidation of MFIs	Under the Civil Code Article 92, a limited liability company may be reorganized or liquidated in a voluntary manner upon the unanimous decision of its participants. Other grounds for reorganization and liquidation of the company, as well as the procedure of the reorganization and liquidation thereof shall be determined by this Code. A limited liability company may be transformed into a joint stock company.
Other transformation issues	Commercially-oriented NGOs must register as a commercial entity, such as a limited liability company, in order to receive a license from the CBAR. This subjects them to commercial taxation and increases the cost of registration.
Case Study	Credagro is an IFC investment client in Azerbaijan, having signed a \$6.0 million senior loan and a \$4.0 million subordinated convertible loan in 2008 to finance micro, small, and medium enterprises throughout the country. The MFI Transformation Support Project is supporting the transformation process of Credagro and has recently provided senior management with assistance in specifying and implementing its Credit Risk Management Unit, as well as in investor relations and negotiations.

²⁰ MIX, 2010.

B. BOLIVIA		Exchange Rate: USD1= 6.97 Bolivian Boliviano
Legal Framework		
Description of legislation	The General Law <i>On Banking and Financial Institutions</i> of 1993 last modified in May 2004 covers all institutions providing microfinance services in Bolivia including banks, Private Financial Funds (FFPs) and Open Savings & Loan Coops (CACs). Other relevant laws include Law <i>On the Central Bank of Bolivia</i> (1995), <i>Property and Popular Credit Law</i> (1998), <i>Law On Strengthening of Financial Regulations and Supervision</i> (2001), and the <i>Solidarity Bond Law</i> (2002). Regulation of FFPs was defined by the Supreme Decree #24000 (1995). For CACs, there also exists a General Law <i>On Cooperative Associations</i> (1958) and a Supreme Decree #24439 (1996).	
Types of MFIs foreseen in the legislative framework	Types of MFIs include banks providing microfinance through downscaling or microfinance banks; Private Financial Funds (operating as deposit-taking non-bank financial institutions); and CACs.	
Definition of MFI	Legislation contains no specific definition of microfinance, however, by definition FFPs are limited companies whose main purpose is channeling resources to small and micro borrowers whose activities are located both in areas urban and rural. The legislation does not encompass NGO MFIs.	
Current landscape of microfinance activity	According to the Autoridad de Supervisión del Sistema Financiero (ASFI), as of April 2010 there are a total of 13 banks. Three are engaged in microfinance as specialized microfinance banks (BancoSol , Banco Los Andes Procredit and Banco Fie). There are also 5 FFPs, 24 CACs/Credit Unions, and 14 unregulated NGO MFIs.	
Requirements for Entry		
Licensing	Documents required for licensing of any financial institution include economic and financial feasibility studies, proof of staff suitability and financial information. Applications must also be announced in a newspaper with national circulation. Any institutions which provide financial intermediation activities or ancillary financial services are required to comply with the relevant laws.	
Legal form(s)	Banks and FFPs are corporations, while CACs are limited liability companies.	
Minimum capital requirements	For banks, Special Drawing Rights (SDR) 5.5 million (\$8 million). For FFPs, SDR 630,000 (\$916,000) For CACs, there are different requirements depending on their category – SDR 150,000 (\$218,000) for Category 1, SDR 250,000 (\$364,000) for Category 2, SDR 630,000 (\$916,000) for Category 3 and SDR 5.5m (\$8m) for Category 4.	
Regulation and Supervision		
Regulatory and supervisory bodies	ASFI is the state institution responsible for regulating and supervising the operation of banks, cooperatives, mutuals, FFPs, and financial institutions operating in securities and insurance. It replaced the former Superintendency of Banks and Financial Entities (SBEF) by Supreme Decree No. 29894 in 2009.	
Permissible Activities	Banks are permitted to conduct all financial intermediation and related services. FFPs are permitted to carry out almost all the financial intermediation and related services of banks including deposit services, lending, issuing guarantee bonds, foreign exchange operations, and leasing, among others. CACs are permitted to carry out several financial intermediation and related services, depending upon their category. CACs classified as categories 1 or 2 can collect deposits, grant loans, payments and money transfer services inside the country, conduct certain payment services and trade foreign currency for their own operations. CACs that are classified as category 3 are permitted to carry out similar operations to those carried by FFPs, except those involving financial leasing. CACs that are classified as category 4 are permitted to carry out passive, active, contingent and financial service operations in local and foreign currency, with the exception of those referred to traveler checks and	

	credit cards, operations with forwards and futures of foreign exchange, giving endorsement, caution and other collateral operation, open, give notice, confirm and negotiate letters of credit.
Restrictions on activities	FFPs are restricted in (i) providing deposit services in general deposit warehouses; (ii) carrying out factoring operations, (iii) receiving bills of exchange or other collection items, as well as making collections, payments, and transfers, (iv) performing wire transfers and issuing payment orders payable within the country or abroad, (v) investing in the capital of securitization companies, (vi) investing in the capital of insurance companies, (vii) administering investment funds to invest to third party accounts. To engage in the following, FFPs must seek permission from the ASFI: (i) reception of funds for checking accounts, (ii) issuing credit cards, (iii) investment of capital belonging to financial services institutions.
Capital adequacy ratio	Banks and FFPs, 10%.
Interest rate caps	None.
Lending Limits	For banks, single borrower limits <20% of equity. For FFPs, single borrower limit <1% of equity with personal guarantee and <3% if secured; maximum credit to licensed financial institution <20% of equity, except with ASFI authorization.
Limits on Insider Lending	For banks, lending to directors, executive staff, employees, or related parties is prohibited; combined loans to non-executive employees < 1.5% of equity, and 10% of max (0.15%) per employee.
Reporting requirements arising from transformation	Commercial banks, FFPs and CACs are required to provide annual audited reports. FFPs and CACs must also submit quarterly reports.
Other	A response to the repayment crisis that surfaced in the late 1990 and early 2000s was greater use of the Superintendency's <i>Central de Riesgo</i> , or credit bureau. By the late 1990s, Bolivia already had a reasonably good system, designed for the formal banks. Because Bolivia had a national system of identification cards, even informal entrepreneurs could not easily avoid a bad credit rating by using assumed names. Through the credit bureau, staff at banks, FFPs, and microfinance NGOs can log onto their computers, connect via modem, and immediately obtain a report on the outstanding indebtedness of any prospective applicant. Importantly, the system records outstanding loans, not just instances of delinquency, information necessary for determining whether a client is becoming over-indebted. Unfortunately, the system was never sufficiently complete or up to date to provide a water-tight reference, and it was not good enough to prevent lending to many clients with multiple loans. ²¹ Subsequently, the Superintendency put forth a norm that allowed the establishment of private credit bureaus.
Ownership	
Requirements and restrictions	Fit and proper test is required for shareholders of banks and FFPs. Transfers of shares must be reported to ASFI. For CACs, age and contribution requirements are stipulated for members.
Social Capital	The banking legislation does not specifically address the issue of social capital in the transformation of an NGO MFI. However, in the examples cited below the NGO transferred 'social capital' in exchange for an equity stake in the new entity. The licensed entity, BancoSol (1992), was capitalized by the NGO Prodem (41%) which obtained permission from its grant funders to apply major donations it had received to equity shares in the bank, organizational investors interested in microfinance such as Accion International and Calmeadow, the equity investment arm of the Inter-American Development Bank, and individual private investors (many of whom were board members). In all cases of NGO MFIs with the exception of Procredito, the original NGO continued activities, in many cases lending to poor clients while at the same time owning a for profit 'banking' company. In one case, the FFP is owned by 4

²¹ Rhyne, 2001.

	distinct NGOs, each of whom carry out financial operations on their own books with clients they deem as not profitable enough for the FFP. In each case the transfer of loans from the NGO to the bank was accomplished through a careful process that guaranteed that the licensed entity was capable of fully assuming the operations – and was not done abruptly. Within a relatively short period, Prodem separated itself operationally from BancoSol (while retaining its shares for a while) and eventually sought and obtained its own FFP license under its own name. ²²
ESOPs	The executive management team was given nearly a 6% stake in BancoSol when it was first licensed.
Transformation Matters	
Prudential Requirements arising from transformation	Banks and FFPs must meet all licensing and prudential norms. FFPs are subject to the same kinds of prudential and non-prudential norms as banks. Prudential norms are also set for CACs. Norms cover capital adequacy, provisioning, and lending restrictions (single borrower, related parties, etc.).
Procedures for termination/liquidation of MFIs	Voluntary liquidation for FFPs or banks is only possible with ASFI authorization after all deposits have been refunded. CACs may be dissolved with the agreement of the General Assembly only with authorization from the ASFI.
Other transformation issues	<p>Bolivia witnessed some of the first NGO transformations most notably the NGO Prodem into the commercial bank BancoSol (1992). The introduction of the regulatory window for FFPs created in 1995 encouraged NGOs with strong lending operations to transform into FFPs, allowing them to take deposits, more easily access wholesale funds and commercial capital, and encourage more efficient management. The first was the NGO Procredito which became Caja Los Andes FFP which later transformed into the second specialized microfinance bank Los Andes Procredit S.A.</p> <p>The approach to financial sector liberalization is highly credited with creating the vibrant microfinance sector that exists today. However, it is also noted for going through a crisis in the late 1990s and early 2000s. The crisis is blamed both on a decline in macroeconomic conditions as well as the openness of the regulatory framework which led to the entry of consumer lending into the microfinance market. This resulted in over-indebtedness by borrowers, a repayment crisis and a decline in profitability. Action had to be taken by both institutions to review credit policies and procedures and the government to strengthen the system including the then SBEF imposing risk-management restrictions on consumer lenders.</p>
Case Studies	See documented case studies of: (i) NGO Prodem to BancoSol (1992); (ii) NGO Procredito to Caja Los Andes FFP (1995) to Banco Los Andes Procredit (2005); (iii) NGO FIE to FFP FIE (1998) to Banco FIE (2010).

²² Meagher, 2006.

C. BOSNIA AND HERZEGOVINA (BiH)		Exchange Rate: USD 1= 1.448 Convertible Marks
Legal Framework		
Description of legislation	Banks are regulated under the Law on Banks for BiH as amended. Non-bank MFIs in BiH are regulated under the Laws <i>On Microcredit Organisations</i> (MCOs) (passed in 2000). Other relevant legislation includes Law <i>On the Central Bank of BiH</i> , Law <i>On the Banking Agency for BiH</i> , Law <i>On Associations and Foundations</i> and Law <i>On Registration of Business Companies</i> .	
Types of MFIs foreseen in the legislative framework	The types of institutions providing microfinance services in BiH include specialized microfinance banks, and MCOs either for profit microcredit companies (MCCs) or non-profit microcredit foundations (MCFs).	
Definition of MFI	The legislation defines a MCO as a non-depository financial organization whose core activity is the provision of microcredits with the objective of improving the financial position of the microcredit beneficiaries, increasing employment, providing the support to the development of entrepreneurship and acquisition of profits.	
Current landscape of microfinance activity	Currently there are 21 banks (including two under provisional administration) with 1 a specialized microfinance bank (ProCredit Bank Sarajevo) and 1 government development bank (Razvojna Banka Federacije BiH) engaged in microfinance. According to the Banking Agency there are currently 19 MCOs in BiH. The MixMarket lists two of these as MCCs (2008).	
Requirements for Entry		
Licensing	Banks are required to submit a founding contract, information about board, management and shareholders and financial data. A permit to engage in microcredit activity must be obtained from the Banking Agency of BiH . The MCO statute must be submitted to the Ministry of Social Policy containing information (amongst other points) about the main management and leadership bodies and the use of funds.	
Legal form(s)	Bank must be established and perform business operation as a joint stock company. MCOs are established and operate in a form of a limited liability business company or a joint stock company.	
Minimum capital requirements	For banks, minimum capital of KM 15m (\$10.4 million) is required. For MCCs, the minimal amount of the share capital of a microcredit company amounts to KM 500,000 (\$345 thousand) and has to be fully paid in cash. For MCFs, founders' contribution may be paid in cash and in items and rights expressed in their cash value, taking into account that the contribution paid in cash must amount to at least KM 50,000 (\$35 thousand).	
Regulation and Supervision		
Regulatory and supervisory bodies	The Banking Agency of BiH is responsible for regulation and supervision of banks, including issuing licenses, setting performance standards, reporting requirements and criteria for risk management. The Banking Agency was established for the advancement of reliable, quality and legal performance of a stable banking and micro-credit system in BiH. The Banking Agency of BiH issues permits to MCOs to engage in microcredit activity and provides supervisory oversight. The Ministry of Social Policy is responsible for registration and performance monitoring, though not for prudential regulation.	
Permissible Activities	For banks, deposit services, loans and financial leasing, issuing guarantees, payment system and money transfer services, buying and selling foreign currencies and other financial activities usually undertaken by banks. MCOs can engage in other activities that serve the activity of microcrediting such as credit consultations, business counseling and technical assistance.	
Restrictions on activities	Banks must refrain from uncompetitive practices. A MCO cannot accept cash deposits and savings deposits from natural persons or legal entities.	

Capital adequacy ratio	Banks, 10%, half consisting of core capital.
Interest rate caps	None.
Lending Limits	For banks, single borrower limit <40% of core capital; maximum unsecured credit <5% of core capital; sum of large credits (>15% of core capital) <300% of core capital. For MCCs, single borrower limit \$35,000. For MCFs, single borrower limit \$6,900.
Limits on Insider Lending	For banks, lending to related persons (Chairman, members of the Supervisory Board, of Management, of the Audit Board; individuals with significant ownership and others) cannot be offered under more favorable terms than to any other person.
Reporting requirements	Banks are required to keep accurate accounts and prepare annual financial statements. MCOs must maintain business books and records and prepare financial statements. An MCO must submit annual audited financial statements within five months from the expiry of the business year to which the report refers, at the latest and its audited statements in one or more daily newspapers.
Other	MCOs cannot invest in fixed assets more than 10% of its total assets deducted for the amount of donated funds. BiH had no central credit bureau until 2009. MCOs were unable to check how much debt a loan applicant already had elsewhere. And commercial banks, which had moved into microfinance-size loans, could not tell how much microfinance debt a borrower had accumulated. Currently, MCOs are not obliged to report to the bureau, making it impossible to determine the full extent of borrowing from multiple lenders.
Ownership	
Requirements and restrictions	For Banks, no physical or legal person, alone or acting in concert with one or more other persons, may acquire significant voting rights in a bank, or increase the amount of his ownership of the bank's voting shares or capital in such a way that the thresholds of 10%, 33%, 50% and 66.7% are reached or exceeded without obtaining the approval from the Agency. MCOs in BiH require three natural persons (irrespective of nationality) as founders, with MCOs.
Social Capital	The Banking Agency of BiH has taken specific steps to 'ring fence' social capital and preserve the social mission of the MFOs. The definition of an MCO itself has an explicit social mission (see above). The regulations on MCOs further prohibit the use of donated funds for investment in fixed assets and coverage of loss of operations (unless otherwise stipulated in the agreement on donated funds). Furthermore, if a MCF wants to transform into a for-profit microcredit company, it has to establish a new MCC and invest in it. In this case, an MCF must acquire ownership share of at least 51% of a capital in a newly established MCC. If a new MCC is established by two or more MCFs, their aggregate ownership share must exceed 51%. The Decree on Other General Requirements for Business Operations of an MFI states MCFs can sell share in an MCC provided that the MCF ownership remains not less than 51%; and an MCF's ownership in the capital of an MCC can be less than 51% in case of the recapitalization of an MCC provided that the recapitalization is in cash and comprises at least one-third of the existing capital. It is suggested that the Banking Agency expects licensed MCFs to continue their microcredit lending even after the MCC has been established. The rationale for this appears to be that the MCF was granted the license, and, since the license can be removed if lending is suspended, the MCF must continue lending. ²³
ESOPs	No references.
Transformation Matters	
Prudential requirements arising	Banks must meet all licensing and prudential norms set by Banking Agency for

²³ Wills, 2009.

<p>from transformation</p>	<p>BiH. In addition to meeting minimum capital requirements, banks' (i) regulatory capital must be not less than 10% of risk-weighted assets; (ii) core capital must be not less than 50% of regulatory capital; (iii) credit exposure to a single borrower or group of related borrowers must not exceed 40% of core capital; (iv) the maximum unsecured credit should not be more than 5% of core capital; (v) the sum of large credits (that is, credits which individually are more than 15% of core capital) must not be greater than 300% of core capital; and (vi) no more than 50% of capital must be invested in fixed assets.</p> <p>As MCOs are restricted from taking deposits, the regulations for MCOs refer only to lending activities. The law stipulates requirements for forming loan loss reserves and calculation of effective interest rates on loans, which are required to be disclosed to clients. The Decree on Other General Requirements for Business Operations of an MCO also stipulates that (i) capital must be not less than 10% of assets; (ii) fixed assets must be not more than 10% of total assets; (iii) adjusted ROA must be positive; (iv) operating efficiency must be not greater than 45%; (v) PAR 30 must be less than 5%; and (vi) write offs must be less than 3%.</p>
<p>Procedures for termination/ liquidation of MFIs</p>	<p>Two or more microcredit companies may merge into a new microcredit company in such a way that they cease to exist, and the newly established microcredit company becomes their legal successor.</p> <p>A microcredit company may be subject to acquisition to another microcredit company which becomes the legal successor of the acquired company, which therefore ceases to exist.</p> <p>A microcredit company may be divided in such a manner that it ceases to exist by transferring its assets and liabilities to two or more either existing or new microcredit companies that become its legal successors</p>
<p>Other transformation issues</p>	<p>Since 2004, microfinance industry leaders have seen the need for a pathway for Bosnia's MCOs to transform into commercial legal projects. Furthermore, there is continuing movement towards unifying and consolidating the Bosnian financial system under one central bank instead of regulating financial institutions separately BiH and the Republika Srpska, as is currently done.</p> <p>The new microfinance law adopted in 2006 stipulates the conditions for transformation of microcredit organizations (MCOs) into nonprofit microcredit foundations (MCF) and then for-profit microcredit companies (MCCs), which can take the form of Limited Liability (LLC) or a Joint Stock Company (JSC). The MCC status enables institutions to open their capital structure to investors, however, MCC remain forbidden from taking deposits.</p>
<p>Case Study</p>	<p>The law authorizes mergers and acquisitions. MIKROFIN, which registered as a microcredit company in 2007, merged with another microfinance institution BENEFIT.</p> <p>See M. Wills' Report on MI-BOSPO Transformation Consultancy, 2009. See Partner Case Study in Aligning Interests, 2010.</p>

D. KAZAKHSTAN		Exchange Rate: USD 1= 147.1 Kazakhstani Tenge
Legal Framework		
Description of legislation	Banks are regulated under the Law <i>On Banks and Banking Activities</i> (1995, as amended through 2005). The 2003 Law of the Republic of Kazakhstan <i>On Microcredit Organizations</i> (MCOs) governs MFIs. Law of the Republic of Kazakhstan as of March 28, 2003 No. 400-II (amended through 2005) governs credit partnerships. The <i>On Joint- Stock Companies</i> (1998) and <i>the Civil Code</i> , among others, also apply.	
Types of MFIs foreseen in the legislative framework	Types of MFIs include banks engaged in microfinance through downscaling and wholesale lending. Microcredit services are provided through for profit or non-for-profit MCOs. Prior to the Law on MCOs, microfinance institutions could register as non-bank financial institutions. Credit cooperatives are also considered.	
Definition of MFI	The legislation defines a MCO as a legal entity, which performs activity on providing of microcredits in order, determined by the present Law.	
Current landscape of microfinance activity	As of May 1, 2010, the NBK lists 39 banks. This includes 3 downscaling banks engaged in microfinance. MixMarket identifies another 512 MCOs, 166 credit partnerships (cooperatives) and 1 government development institution engaged in microfinance.	
Requirements for Entry		
Licensing	Application for a bank license may be submitted by a legal entity or individual in Kazakh and Russian languages. The following are required with the application: (i) constituent documents; (ii) information on founders; (iii) information on proposed employees of the bank; (iv) organizational structure; (v) provisions of the internal audit function; (vi) provisions of the credit committee; (vii) business plan; and (viii) other information deemed relevant.	
Legal form(s)	Banks are in the form of joint stock companies. MCOs can register as for-profit institutions (economic partnerships) or non-profit as public funds.	
Minimum capital requirements	New capital requirements for commercial banks came into force in Kazakhstan on October 1, 2009. For banks based in Astana and Almaty, the new minimum equity capital is KZT 5 billion (\$33 million), for housing savings banks KZT3 billion (\$20 million), and for regional banks KZT2 billion (\$13 million).	
Business Activities		
Regulatory and supervisory bodies	Banks are regulated by the National Bank of the Republic of Kazakhstan (NBK). MLOs are monitored by the Government Statistics Agency and supervised by the Ministry of State Revenue through local tax authorities. MCOs are not supervised by the NBK and are not considered part of the formal financial system. MCOs are therefore exempt from all prudential norms set by NBK.	
Permissible Activities	For banks: Full financial services, including deposits, credits, cash operations, securities, insurance, real estate, remitting cash, factoring, forfeiting, leasing. For MCOs: Lending (but individual loans must be less than \$5,300), temporary investing, transactions with pledged property, advisory services regarding microloans, leasing and free training.	
Restrictions on activities	For banks, ownership of non-financial firms. For MCOs, deposit services.	
Capital adequacy ratio	Banks (second tier), 12% of capital.	
Interest rate caps	None.	
Lending limits	For MCOs, single borrower limit <8,000x monthly calculating rate (MCR), determined by the law of RK.	
Limits on insider lending	For banks, lending insiders with preferential terms prohibited.	
Reporting requirements	For Banks, accounting and reporting requirements are specified by Article 54 of the Law on Banks. Banks shall also publish annual statement including annual balance and statement of income and expense, upon forms and in terms,	

	specified by the NBK upon coordination with the authorized body, after confirmation by the auditor, and quarterly unaudited reports.
Other	The First Credit Bureau LLP was founded on July 29, 2004 by the top 7 banks of the Republic of Kazakhstan, with direct participation of the Financial Institutions' Association of Kazakhstan and Financial Sector Initiative of the Pragma Corporation/USAID. As of January 1, 2005 the founders were: Alliance Bank, ATF Bank, Bank TuranAlem, Bank CenterCredit, Kazkommertsbank, Halyk Bank of Kazakhstan and Tsesnabank. Commercial activity commenced in January 2006. The bureau provides reports on legal entities as well as physical persons. As of July 2010, it listed 89 clients including all commercial banks and MCOs, such as Almaty-Finance LLP, Astana-finance LLP, TAT SENIM, Narodny kredit LLP, and KazMicroFinance LLP. ²⁴
Ownership	
Requirements and restrictions	Bank ownership may be state, private, joint-stock, joint, and foreign-owned. A legal entity or individual is entitled to apply for bank opening. There are additional requirements to establish a bank if the founders of the bank include non residents or foreign participation. Ownership of more than 10% of voting shares requires specific NBK approval.
Social Capital	No references.
ESOPs	Example: MCO <i>KazMicroFinance</i> LLC is co-owned by Corporate Fund «KMF-Demeu» with 83% share in the company charter capital and the remaining 17% according to employees' charter capital participation policy (under international program ESOP adopted in 2007) belongs to company employees.
Transformation Matters	
Prudential requirements arising from transformation	Prudential standards for banks include: (i) minimal value of bank capital; (ii) coefficient of adequacy of own capital; (iii) maximal value of risk for one borrower; (iv) liquidity ratio; (v) limits of open currency position. Prudential standards, specified by authorized body for their obligatory observance by bank groups, include: (i) minimal value of authorized capital stock; (ii) coefficient of adequacy of owned capital; (iii) maximal value of risk for one borrower. The Law further states that the authorized body shall be entitled to specify additional prudential standards and other compulsory for observance norms and limits, used in international banking practice.
Procedures for termination/liquidation of MFIs	
Other transformation issues	
Case Study	<i>KazMicroFinance</i> was established in 1997. The company was founded by ACDI/VOCA as Public Fund "Kazakhstan Community Loan Fund" - at first a small regional company and later a republic MCO. In 2001 the HQ was moved to Almaty and branches started to be opened all over Republic. In 2006, a plan was developed to transform the non-for-profit fund into a for-profit company to raise funds from investors. In 2007, MCO «KazMicroFinance» LLC was established, and loan portfolio and customers were transferred to this company. Currently, 23 thousand people get loans from KMF. Among KMF long-term goals is to establish the first specialized microfinance bank in Kazakhstan. Currently, Kazakhstan MCO clients can only borrow. Kazakhstan MCO intends to keep its target group while extending the product lines for clients to get the whole service package in one place: take a loan, make remittances, and open a deposit account. Due to the fact that requirements to capitalization for second-tier banks in Kazakhstan were raised, plans shifted in time. Despite this fact KMF plans to continue, as it always has, to look at the market segment which does not have access to traditional banking services, expand activity in the regions and rural areas since a problem to provide banking services to small businesses in the regions where banks' branch network is not active yet, is an acute need. ²⁵

²⁴ See <http://www.lcb.kz/eng/index.php?p=about>.

²⁵ KazMicrofinance [website](#).

E. KYRGYZ REPUBLIC		Exchange Rate: USD 1= 45.2 Kyrgyzstani Soms
Legal Framework		
Description of legislation	Banks are regulated under the 1997 Law of the Kyrgyz Republic <i>On Banks and Banking Activities in the Kyrgyz Republic</i> (as amended through 2009). MFIs are regulated under the 2002 Law <i>On Microfinance Organizations in Kyrgyz Republic</i> (as amended through 2009). The 1999 Law <i>On Credit Unions</i> (as amended through 2009) governs credit unions. Other relevant laws include the 1997 Law <i>On the National Bank of the Kyrgyz Republic</i> (as amended through 2009), the 2009 Law <i>On Transactions in Foreign Currency</i> , the 2003 Law <i>On Joint Stock Companies</i> (as amended through 2009), and the 1997 Law <i>On Licensing</i> (as amended through 2009).	
Types of MFIs foreseen in the legislative framework	Banks may be engaged in microfinance through downscaling and specialized microfinance banks. The law on microfinance organizations identifies three types of MFIs regulated by the National Bank of Kyrgyz Republic (NBKR): (i) Microfinance Company (MFC), similar to a commercial bank, which takes deposits and makes loans; (ii) Microcredit Company (MCC), which is a commercial entity that makes loans but may not take deposits; and (iii) Microcredit Agency (MCA), which is non-commercial and makes loans from its own funds. MFCs conduct both credit and deposit-taking activities and require both a certificate and a license from the NBK. MCAs and MCCs require certification from the NBKR to carry out microcredit activities.	
Definition of MFI	The legislation defines a micro-finance organization as a specialized finance and credit or lending institution (micro-finance company, micro-credit company, micro-credit agency), established as a legal entity with the purpose to provide micro-credits to certain categories of physical person and legal entities.	
Current landscape of microfinance activity	As of June 1, 2010, the NBKR lists 22 banks among these are 4 downscaling banks and 1 specialized microfinance bank (Aiyl Bank) engaged in microfinance. As of May 31, 2010, NBKR lists 239 MCCs, 130 MCAs, 4 MFC and 230 credit unions.	
Requirements for entry		
Licensing	<p>For banks, to receive a license applicants must submit the following documents: (i) application for the license; (ii) founding documents; (iii) business plan with economic feasibility; (iv) information on founders (shareholders); (v) list of members of Board of Directors and the Audit Committee; (vi) list of members of the bank management; (vii) information on members of the management and/or heads of large departments; (viii) detailed organizational structure; and (ix) others as prescribed. In addition, the NBKR will confirm: (i) state registration certificate is submitted; (ii) authorized capital is fully paid; (iii) premises and equipment ensure security of deposits; (iv) external auditor is appointed; (v) personnel and information systems are in compliance; and (vi) banks has met all other requirements.</p> <p>Micro-finance companies that apply to obtain a license for the right to attract deposits on its behalf on terms agreed with the depositor in addition to the documents mentioned in Article 23 of the MFO Law must submit the documents set forth by the Article 14 of the Kyrgyz Republic Law <i>On Banks and Banking Activities in the Kyrgyz Republic</i> which includes a feasibility study and business plan. The NBKR has the right to determine additional information that the applicants shall submit for obtaining a license.</p>	
Legal forms	Banks and MFCs are legal entities established as joint stock companies. MCCs are any legal form of commercial organization with a certificate from the Central Bank. MCAs are any legal form of non-commercial organization with a certificate from the Central Bank, except political parties, professional unions or religious organizations.	
Minimum capital requirements	For existing banks: \$1.3 million (100 million KGS) effective January 2008. For new banks, \$7.8 million (600 million KGS) effective January 2009. ²⁶	

²⁶ ADB.

	<p>For MFCs taking deposits, \$550 thousand (25 million KGS) (2002 Temporary Rules). For MFCs not taking deposits, \$220 thousand (10 million KGS) (2002 Temporary Rules).</p> <p>For MCCs without branches, \$1,100 (50,000 KGS); with branches \$2,200 (100,000 KGS) (2002 Provisions for MCCs and MCAs as amended).</p>
Regulation and Supervision	
Related regulatory and supervisory bodies	The NBKR is the licensing, regulatory and supervisory authority in the Kyrgyz Republic, authorized to issue normative acts for banks and MFOs, define financial standards, impose sanctions and penalties and request reports and documents.
Permissible Activities	<p>For banks, full financial services, including deposits, lending operations, cash operations, securities, remitting cash, factoring, forfeiting, leasing. Only authorized banks and foreign exchange bureaus have the right to carry out operations in foreign currency with the individuals effected on a professional basis.</p> <p>All MFOs may conduct general microcredit activities, have settlement accounts with commercial banks and borrow funds from international donor organizations, banks and financial and credit institutions. MCCs may also conduct factoring and leasing with approval from the NBKR, although this may lead to additional regulatory requirements in the future. Furthermore, MFCs may conduct both secured and unsecured lending, accept time deposits (two years after granting of license), conduct factoring and leasing and issue shares and debt securities.</p>
Restrictions on activities	<p>Banks are expressly forbidden to participate in “gambling” activities including the organization and conduct of cash and prize lottery, and also conduct of such lottery in the premises of the bank or advertisement of such lotteries.</p> <p>Within the initial 2 years from the moment of start of its activity the MFC cannot accept time deposits from physical and legal entities on conditions of repayment with the purpose to accumulate the clients savings unless the entity: (i) is previously existing and authorized to collect deposits, (ii) is a transforming credit union, (iii) is a transforming MCC or MCA that has existed for two years.</p>
Capital adequacy ratio	<p>Banks, by normative act.</p> <p>MFC (non deposit taking), 15% of capital.</p> <p>MFC (deposit taking), 20% of capital.</p>
Interest rate caps	None.
Lending Limits	<p>For banks, amount of individual investments or loans to any non-banking organization <20% of capital and <60% in aggregate.</p> <p>For MFCs (non deposit-taking), aggregate risk of unsecured credits <50% of capital; single borrowers <10% of capital; maximum risk to insiders <5% of capital; maximum size of investments in other organizations <40% of capital.</p> <p>For MFCs (deposit-taking), aggregate risk of unsecured credits <30% of capital; single borrower limit <10% of capital; maximum risk to insiders <0%; maximum size of investments in other organizations <40% of capital.</p>
Limits on Insider Lending	For banks, credit to insiders is restricted under specific circumstances set by the NBKR; NBKR set limits on percent of assets that can be lent to insiders.
Reporting requirements	<p>The NBKR sets the formats for corresponding reports and terms for submitting them.</p> <p>For MFCs, at least once a quarter must publish in mass media balance reporting with explanations on this reporting and annually publishes financial statement confirmed by independent External Auditor. NBKR may request any information they see fit. This is to be specified in normative acts.</p>
Other	There is currently a private credit bureau, Credit Information Bureau Ishenim, and the National Bank of the Kyrgyz Republic is also developing its own public credit registry. Both the banking and microfinance institutions exchange credit information through CIB Ishenim on a voluntary basis. There is no specific law that governs credit bureau operations in the country. IFC is helping to facilitate improvements to the legislative and regulatory framework governing credit

	information sharing, and aims to further strengthen the institutional capacity of the existing credit bureau.
Ownership	
Requirements and restrictions	<p>For banks, founders and shareholders of a bank may be legal entities and individuals that might be resident or non-resident in the Kyrgyz Republic, as well as the Government of the Kyrgyz Republic. Founders (participants, shareholders) of the bank as well as persons affiliated with the bank shall submit to the NBKR, upon its request, founding documents, financial and other reports identifying its founders (shareholders, participants) as well as information on its financial status and current transactions.</p> <p>No restrictions on MCCs and MCAs. For MFCs, legal entities may hold a maximum of 20% of voting share. Legal entities meeting the criteria defined in the normative acts may own up to 100% of voting share. Investors owning more than 5% of stock can be examined for their reputation and financial condition. Should the acquisition of shares lead to the right to control the MFC, an announcement to the NBKR for approval must be made 30 days in advance.</p>
Social Capital	No references.
ESOPs	Founders and shareholders of a bank may be legal entities and individuals that might be resident or non-resident of the Kyrgyz Republic. Information with respect to founders and shareholders must be submitted as part of the bank application.
Transformation Matters	
Prudential requirements arising from transformation	<p>For banks, prudential standards include: (i) minimal value of bank capital formed in the national currency; (ii) reserve ratios; (iii) settlement procedure and limits on foreign exchange exposure; (vi) maximum value of risk for related parties.</p> <p>For MFC, the temporary rules set limits for (i) minimum capital; (ii) maximum size of risk to a single borrower; (iii) capital adequacy; (iv) liquidity; (v) maximum risk to individual unsecured credits; (vi) maximum risk to affiliated persons or insiders; (vii) maximum size of investments in other organizations.</p>
Procedures for Termination/ Liquidation of MFIs	Reorganization and/or liquidation of micro-finance organizations: (i) micro-finance organization may be reorganized upon decision of the National Bank in compliance with the legislation of the Kyrgyz Republic; (ii) a micro-finance organization may be liquidated on voluntary basis in compliance with legislation of the Kyrgyz Republic, in this case the micro-finance organization shall submit the original of the license (certificate) to the National Bank within three days from the moment decision of liquidation on voluntary basis was made and it shall terminate transactions outlined in the license from the moment the decision on liquidation was made; (iii) in case of a micro-credit agency liquidation all property that remains after favoring creditors law suits is targeted to achieve charter goals of non-commercial organization; (iv) in case of default (bankruptcy) a micro-finance organization is liquidated as a bank in compliance with legislation on bankruptcy of the Kyrgyz Republic.
Other transformation issues	<p>MCAs and public foundations, cannot be reorganized into commercial entities. However, new organizations can be established (MCCs and MFCs) as part of a transformation process. The restriction of ownership in MFCs to not more than 20% has led to ambiguities for microfinance organizations seeking to transform as it can prevent the founders from a controlling interest. It is also noted that a MFIs loan book cannot be counted as a contribution to authorized capital.</p> <p>In its medium-term development strategy, the NBKR acknowledges that it needs to research problems of transformation of MCAs and MCCs into MFCs, in this case it is necessary to: (i) consider the possibility of setting in normative and legal acts of the NBKR a three year period to bring the ownership structure of a MFC into line with the requirement of no more than 20 percent of ownership share of legal entities (these changes should not refer to a MFC intending to obtain or hold a license for deposit acceptance); (ii) consider the possibility to revise Attachment 1 of the Interim Regulation "On the Establishment of Microfinance Companies on the Territory of the Kyrgyz Republic" currently in effect (approved by the Resolution of the Board of the National Bank of the</p>

	<p>Kyrgyz Republic #42/1 of October 11, 2002, registered with the Ministry of Justice of the Kyrgyz Republic #143-02 of November 14, 2002) with regard to introducing addenda to the list of international organizations qualified to serve as the founders of MFCs without limiting their share interest; (iii) consider the possibility to exempt MCAs and MCCs transforming into MFCs from the requirement of depositing the minimum amount of authorized capital in a bank account prior to obtaining a license (this requirement should only apply to newly established MFCs); and (iv) establish requirements to personnel qualification of an MFC, including the work experience both in the banking sector and in the microfinance sector.</p>
Case Studies	<p>As of May 31, 2010, there are only 4 MFCs. This includes two MCCs that transformed: (i) ZAO Financial Group Kompanion (May 15, 2009); and (ii) Bai-Tushum and Partners (Sept 1, 2009).</p> <p>Bai-Tushum and Partners became an IFC investment client in the Kyrgyz Republic, having signed a \$4 million loan agreement in 2009 and \$1.2 million in 2005 to finance micro and small entrepreneurs in urban and rural areas through individual and group lending products. Bai-Tushum and Partners is one of the leading microcredit companies in the country, accounting for 26% of the local microfinance market in terms of loans outstanding, combining stable growth with good profits. The MFI Transformation Support Project is supporting this Kyrgyz microfinance institution in its transformation to becoming a deposit-taking organization and has provided the management board with corporate and strategic advisory services on its equity raising efforts.</p>

F. MONGOLIA		Exchange Rate: USD 1= 1370.4301 Mongolian Tugriks
Legal Framework		
Description of legislation	<p>Banks are regulated under Law of Mongolia <i>On Banking</i> (1996) as amended. MFIs are regulated under the Law On Non -Bank Financial Institutions (2003). Cooperatives are regulated under the Cooperative Law. Other relevant laws include the 2001 Law of Mongolia <i>On Central Bank</i> (Bank of Mongolia), the 2002 <i>Civil Code</i> of Mongolia, the <i>Company Law of Mongolia</i> and the <i>Law On Licensing</i>.</p>	
Types of MFIs foreseen in the legislative framework	<p>Banks may be engaged in microfinance through downscaling or as specialized microfinance banks. Non-bank financial institutions (NBFIs) are regulated under the Law on NBFIs and are restricted from offering deposit services. Credit and Savings Cooperatives are regulated under the Cooperative Law.</p>	
Definition of MFI	<p>There is no specific definition of an MFI. A NBFI is a legal person of Mongolia or a foreign legal person authorized by an intergovernmental agreement that conducts nonbank financial activities in accordance with the license issued by the Bank of Mongolia.</p>	
Current landscape of microfinance activity	<p>The MixMarket notes 2 specialized microfinance banks of the 16 total banks. The Financial Regulatory Commission (FRC) of Mongolia lists 173 NBFIs (7/2009) and 209 savings and credit cooperatives (2008). Only 2 banks and 3 NBFIs offering microfinance services report to the MixMarket for 2008. Estimates suggest over 40% of banks and 50-60% of NBFIs engage in microfinance.²⁷</p>	
Requirements for Entry		
Licensing	<p>For banks, the founders must submit the following documents to the Bank of Mongolia in order to obtain a license: (i) an application for a license; (ii) founding agreement; (iii) the charter of the bank; (iv) an economic feasibility forecast; (v) the name and address of the founders and persons who will own 10 percent or more of the capital of the bank and audited financial statements of such business entities for the past two years; (vi) a detailed description of the management, staff, technical facilities and premises of the proposed bank</p>	

²⁷ Togtokhbariul, 2007 and UNDP, 2004.

	<p>in the form prescribed by the Bank of Mongolia.</p> <p>For NBFIs, founders must meet the requirements and conditions set forth in Article 2 of the Law on NBFIs which includes, among others: (i) original resolution from founders; (ii) notarized copy of registration; (iii) certificates with regard to paid in capital; (iv) description of software, hardware and equipment; (v) business plan; and (vi) others requirements, if owners are foreign.</p>
Legal form(s)	<p>For banks, joint stock company or limited liability company.</p> <p>For NBFIs, joint stock company or limited liability company.</p>
Minimum capital requirements	<p>For banks: MNT 8 billion (\$5.8 million) (as of March 2006). For NBFIs: MNT 200 million (\$145 thousand) in Ulaanbaatar; MNT 100 million (\$73 thousand) in Darkhan Soum -- Darkhan-Uul Aimag, and Bayan-Ondor Soum -- Orkhon Aimag' and MNT 10 million (\$7,300) elsewhere. In addition, any NBFIs providing electronic, trust, or remittance services must have a minimum of MNT 500 million (\$365 thousand).²⁸</p>
Regulation and Supervision	
Related regulatory and supervisory bodies	<p>Banks are regulated by the Bank of Mongolia. The FRC, a statutory body, was set up under the Law on Legal Status of the Financial Regulatory Commission on January 25, 2006. More than 1,000 legal entities including non-bank financial institutions, and savings and credit cooperatives are regulated by the FRC.</p>
Permissible Activities	<p>For banks, on authorization by the Bank of Mongolia, full financial services including accepting deposits, issuing loans, providing payment services, providing payment guarantees, transactions and exchange in foreign currency, buying and selling securities, leasing, and other financial services licensed by the Bank of Mongolia.</p> <p>For NBFIs, lending, factoring, financial leasing, issuing guarantees, issuing payment instruments, electronic payment, remittance services, foreign currency exchange, trust services, investment into short-term financial instruments, and provision of investment or financial consultancy.</p>
Restrictions on activities	<p>For banks, activities for profit other than banking business, uncompetitive practices, engagement in the market for land, false advertising, donating to political parties.</p> <p>For NBFIs, conducting activities other than those stated in the license; making false or misleading advertisements or statements related to its activities; accepting deposits or open deposit accounts of individuals and legal persons; accepting deposits by issuance of payment instruments such as cheque, card, or promissory note; using sources of funding that are not reflected in the balance sheets.</p>
Capital adequacy ratio	<p>Banks, 10%.</p> <p>NBFIs, 20%.</p>
Interest rate caps	None.
Lending Limits	<p>For banks, total loans and guarantees provided to single borrower <20% of capital; total amount of guarantees must be < amount of capital.</p> <p>For NBFIs, single borrower <30% of capital; aggregate guarantees <70% of capital.</p>
Limits on Insider Lending	<p>For banks, total loans and guarantees to individual director, officer, shareholder or board member < 5% of capital; aggregate to all insiders <20% of capital and no preferential terms.</p> <p>For banks, total amount lent or guaranteed to shareholders, Directors, Officers, or other related parties <10% of capital per individual, <25% on aggregate.</p>
Reporting requirements	<p>The Bank of Mongolia establishes reporting requirements for banks. The FRC establishes reporting requirements for NBFIs. Banks and NBFIs are required to submit annual audited reports.</p>

²⁸ Togtokhbariul, 2007.

Other	The BoM established the Credit Information Bureau (CIB) in 1996. All commercial banks and NBFIs are required to report credit information to the CIB. There is a recognized need for a private credit bureau given the inadequacies of the current system. The board of directors of the Credit Information Center Limited (the company formed to operate the private Credit Information Bureau) held its first meeting on 9 January 2009. The company is proceeding to recruit a project manager and finalize a mandate with the International Finance Corporation to conduct an international tender for a strategic operating partner and investor. The 18 shareholders of the Credit Information Center Limited include Zoos Bank, XacBank, Trade and Development Bank, Khan Bank, Mongol Post Bank, Golomt Bank, Capital Bank, Capiron Bank, Savings Bank, Chingiss Khan Bank, Erel Bank, Transport and Development Bank of Mongolia, National Investment Bank, Credit Bank, United Finance NBFI, Credit Mongol NBFI, Anod Bank and the Mongolian Bankers Association.
Ownership	
Requirements and restrictions	For Banks, individuals, legal persons or organizations, with the exception of those financed by the State budget, public charity fund-raising or religious organizations, shall be entitled to incorporate a bank. For NBFIs, a legal person financed from the state budget, a religious, or political, or nongovernmental organization shall be prohibited from engaging in non-bank financial activities stated in Article 36.2 of Civil Code.
Social Capital	No references.
ESOPs	Example: XacBank (2008 Annual Report), Employee Investment Trust (EIT) Number of shares: 1,932,445; Ownership: 24.31% EIT is a special purpose company, which is owned by co-workers and capitalized with the shares that they currently hold in the Bank and the Group. Through this process co-workers set up a truly sustainable mechanism to align the Group's interest with those of its employees and at the same time ensure a proper participation of these shareholders in the strategy of the organization while ensuring protection of their legal rights as minority stakeholders. This entity has voting and transfer rights and allows the Group to deal with 1 shareholder, alleviating the need to work separately with each individual shareholder.
Transformation Matters	
Prudential requirements	For banks, prudential standards include: (i) compulsory reserves and liquid reserves; (ii) foreign exchange ratio; (iii) maintaining capital and funds to meet the possibility of losses from default; (iv) exposure to a single borrower or group of related borrowers; (v) total value of guarantees; (vi) maximum value of loans and guarantees to shareholders, chairman, directors, or bank officer; (vii) total amount of securities which may be sold, purchased from the non-financial institution and/or held as collateral by a bank.
Procedures for Termination/Liquidation of MFIs	Not expressly referenced in the NBFI Law.
Other transformation issues	
Case Study	XacBank was created as a result of a merger of the two largest NBFIs in Mongolia, "Goviin Ekhlel" LLC and "X.A.C" LLC, in late 2001. Goviin Ekhlel LCC was established by Mercy Corps in December 1999 with funding from USAID as an NBFI serving SMEs. X.A.C., LLC began 1998 under the Micro Start Mongolia Project under UNDP, later transformed into Mongolia's first NBFI by uniting the financial services activities of six local NGO's. These NBFIs operated in different geographic regions and were serving different markets, SME loans vs. microloans. However, both had the same strategic goal of becoming commercial banks with a full range of financial services. All these factors became the foundations of the merger of these two independent institutions to form XacBank. By the end of its first year of operation (2002), XacBank was present in each of the aimags of Mongolia. Since that time the Bank has continued to expand with new branch openings, fulfilling its strategy of providing a full range of

financial services aimed at citizens in remote rural areas, including nomadic herders. Thus the Bank is becoming more competitive by offering a range of loan and deposit products targeted at various segments of the market.

By year end 2004, XacBank disbursed 138,415 loans through 37 branches with 506 staff, operating throughout Mongolia. The Bank offers 14 types of loan products and seven types of savings products. In addition, the Bank offers money transfer, payment settlement and leasing services. Also the Bank provides services to the residents of remote rural areas via a mobile banking scheme, which has already reached approximately one third (137) of the total Soums in Mongolia. In order to provide sustainable financial services at the Soum level a franchising model is being implemented. This model implies the establishment of a Soum based Savings and Credit Cooperative (SCC) formed and operated by the local residents in a sustainable manner, with technical and operational support from the Bank.

As of Jan 2010, XacBank is the country's fourth largest bank with a nation-wide network of 78 offices and 969 staff, and was ranked by Forbes magazine as one of the top 100 microfinance institutions globally. XacBank is a member of the Microfinance Center, which is a grassroots network of 110 member institutions that play an active role in shaping the microfinance industry in the region. Other key institutional memberships and affiliations include: Women's World Banking, Mongolian Management Association, Mongolian Bankers Association, and Mongolian National Chamber of Commerce and Industry. The Bank is one of the founders of the Global Alliance for Banking on Values and is an undisputed leader in Corporate Social Responsibility and good corporate governance in Mongolia.²⁹

²⁹ <http://www.xacbank.mn/en/93/about-xacbank/brief-history>

G. MOROCCO		Exchange Rate: USD 1 = 8.334 Moroccan Dirham
Legal Framework		
Description of legislation	Banks, finance companies and offshore banks are regulated under 2006 Law No. 34-03 <i>On Credit Institutions and Similar Bodies</i> . MFIs are regulated under 1999 Law No. 18-97 on microcredit and 2004 Law No. 58-03 amending and supplementing Law No. 18-97. Cooperatives are regulated by 1984 Law No. 24-83 determining the general status of cooperatives and the functions of the Office of Development Cooperation, as was amended in 1993.	
Types of MFIs foreseen in the legislative framework	Microcredit associations (MCAs) are the primary type of microfinance service provider in Morocco. There are also thousands of small cooperatives regulated under a separate law.	
Definition of MFI	The legislation defines a MCA as an association formed in accordance with the provisions of the Dahir No. 1-58-376 of 15 November 1958 regulating the rights of association and whose purpose is to distribute micro-credit, the purpose of which is to allow economically disadvantaged persons to create or develop their own activity production or service to ensure their economic integration.	
Current landscape of microfinance activity	The Bank Al Maghrib 's 2008 Annual report notes a total of 84 credit institutions including 18 banks, 37 finance companies, 6 offshore banks, 13 microcredit associations, 7 funds transfer companies and 3 other institutions. The Office du Developpement de la Cooperation of Morocco reports a total of 6,895 cooperatives as the end of 2009.	
Requirements for Entry		
Licensing	For banks, applications for approval are directed to Bank Al-Maghrib, which ensures compliance with the relevant provisions of the Law on credit institutions including: (i) capital requirements; (ii) adequacy of human, technical and financial capacity; (iii) background of founders, contributors of capital, members of the administrative, leadership and management; (iv) ability to comply with legislation; and (v) all documents and information deemed necessary.	
Legal form(s)	Banks are registered as fixed capital corporations (société anonyme à capital fixe); cooperatives as cooperatives; and MCAs as non-profit microcredit associations	
Minimum capital requirements	Any credit institution authorized as a bank is required to justify its assessment of a fully paid up capital or funds fully paid, the amount must be equal to at least DH 200,000,000 (\$24 million). However, when the credit institution as a bank does not collect funds from the public, the minimum capital charge is DH 100,000,000 (\$12 million). There are no capital requirements for MCAs or cooperatives.	
Regulation and Supervision		
Regulatory and supervisory bodies	Bank Al-Maghrib is Morocco's Central Bank and regulates and supervises credit institutions (banks) and microcredit associations. The Credit and Savings National Committee (Conseil National du Crédit et de l'Épargne) proposes and discusses all subjects relevant to the development of the savings and credit market. The Credit Establishments Committee (Comité des Etablissements de Crédit) main function is to provide Bank Al-Maghrib opinions to grant specific authorizations to banking institutions including licensing. Ministry of Finance approves microcredit association's registration as an MCA, with prior favorable opinion from the Microcredit Consultative Council. The Federation of Microcredit Associations is responsible for: (i) establishing a code of ethics for MCAs, which must be submitted to the Ministry of Finance for approval, and (ii) supervising and ensuring compliance with regulations by MCAs. The Office of Development Cooperation oversees cooperatives.	
Permissible Activities	Banks, full range of commercial banking activities, including deposit, loans, and investment services. MCAs, microcredit association must have as its sole objective the distribution of micro-credits and is prohibited from taking deposits.	

	Coops, any economic or social service to members including taking deposits for investment in loans.
Restrictions on activities	Banks, maximum interest rate is established annually by the Ministry of Finance and Bank Al-Maghrib. It is calculated on the basis of the average interest rate applied by credit institutions to consumer loans during the prior twelve months plus 200 basis points. MCAs, the amount of microcredit, which may not exceed DH 50,000 (\$6,000) is fixed by Decree.
Capital adequacy ratio	Banks, 8%.
Interest rate cap	Banks are subject to interest rate caps.
Lending Limits	For banks, single borrower limit <20% capital; investment in a single company < 15% of net capital and reserves, in aggregate <60%. For MCAs, single borrower limit <DH 50,000 (\$6,000).
Limits on Insider Lending	
Reporting requirements	Banks are subject to the following reporting requirements as dictated by the Bank Al-Maghrib: (i) exchange positions on a daily basis; (ii) inter-bank lending and borrowing in foreign currencies on weekly basis; (iii) compulsory ratios on a monthly basis; (iv) breakdown of deposits and credits on a quarterly basis; and (v) balance sheets, operating balances, income statements on an annual basis. In addition, annual financial statements must be verified and certified by two auditors and published in a national publication.
Other	The Moroccan Credit Bureau began its operations in 2005. The first private credit bureau, Experian, was established in October 2009. Following the sector-wide crisis, four largest MFIs were integrated into the credit bureau. This is a major step forward to improve credit analysis as well as to control clients' over-indebtedness.
Ownership	
Requirements and restrictions	For banks, (i) shareholders owning, directly or indirectly, 5% or more of the outstanding shares or voting rights must inform Bank Al-Maghrib; (ii) acquisition of 10% or more of the outstanding shares of a credit establishment requires prior consent from Bank Al-Maghrib; and (iii) acquisition of a controlling interest in a bank requires prior approval by Bank Al-Maghrib.
Social Capital	No references.
ESOPs	No references.
Transformation Matters	
Prudential requirements	Credit institutions are obliged to respect, on an individual basis and / or sub-consolidated or consolidated prudential norms established by circular of the Governor of Bank Al-Maghrib, after consulting the Committee of credit institutions, to maintain ratios, including: (i) capital adequacy; (ii) reserves; (iii) liquidity; and (iv) exposures to the same beneficiary or related group of beneficiaries. Transforming MCAs would be subject to the same regulatory regime as all other credit institutions- including the interest rate caps that can make it unprofitable to engage in microfinance services. To date, no MCAs have transformed. See more discussion below.
Procedures for termination/ liquidation of MFIs	
Other transformation issues	In Morocco, as in other countries, there is not a completely clear legal path for an NGO MFI to form a commercial affiliate and 'transform' by exchanging its portfolio and other property in return for shares in the new company. The MCAs Law can be interpreted to permit the basic exchange transaction that lies at the heart of such a 'transformation.' However, the law prohibits a microcredit association to exist for any purpose other than disbursing microcredits and related business advice, meaning that a post-'transformation' association would still need to engage in at least nominal microlending. Moreover, the newly created commercial company would be subject to the same regulatory regime as all other credit institutions – including the interest

	caps that make it unprofitable for banks and other credit institutions to loan directly to a micro-clientele. Associations are not explicitly prohibited from becoming shareholders of a bank or any other financial institution, but Bank Al-Maghrib would certainly have grounds to refuse an application for a license with an association as a substantial shareholder, owing to possible difficulties in the association's fiscal and also perhaps practical capacity to respond to a capital call. ³⁰
Case Study	See Association Al Amana Pour La Promotion des Microentreprises' Stratégie 2011 L'inclusion par la bancarisation de masse, 2007.

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³⁰ Reille and Lyman, 2005.

H. TAJIKISTAN		Exchange Rate: USD 1 = 4.37 Tajikistani Somoni
Legal Framework		
Description of legislation	Banks are regulated under the Law of the Republic of Tajikistan <i>On Banks and Banking Activities</i> (1998). MFIs are regulated under the Tajikistan Law <i>On Microfinance Organizations</i> (2004). Other important legislation includes Regulation # 135: <i>On Procedures Regulating the Activities of Micro-Credit Deposit Organizations</i> ; Regulation, # 136: <i>On Micro-Lending Organizations</i> ; and Regulation # 137: <i>On Micro-Lending Funds</i> . Other relevant laws include the Law of the Republic of Tajikistan <i>On the National Bank of Tajikistan</i> and the Civil Code.	
Types of MFIs foreseen in the legislative framework	Banks may be engaged in microfinance through downscaling or as specialized microfinance banks. The legislative framework also identifies three types of microfinance organizations (MFOs) licensed by the National Bank of Tajikistan (NBT): (i) microcredit deposit organizations (MDOs) - a commercial microfinance organization that takes deposits, extends micro-credits;(ii) microlending organizations (MLOs) - a commercial microfinance organization engaged in providing micro-loans but does not take deposits; and (iii) microlending foundations (MLFs) - a non-commercial microfinance organization engaged in providing micro-loans but does not take deposits.	
Definition of MFI	The legislation defines a MFO either (i) a MDO (a commercial microfinance organization that takes deposits, extends micro-credits and conducts other operations as set forth in this law on the basis of a license issued by the National Bank of Tajikistan); (ii) a MLO (a commercial microfinance organization licensed by the National Bank of Tajikistan and engaged in providing micro-loans and other services); or (iii) a MLF (a non-commercial microfinance organization operating with a certificate issued by the National Bank of Tajikistan and engaged in providing microloans and other services).	
Current landscape of microfinance activity	According to the NBT, there are 13 banks, 6 credit unions, 1 non-banking financial institution, 32 MDOs, 42 MLOs, and 43 MLFs in the Republic of Tajikistan as of April 1, 2010. Four of the banks are engaged in microfinance through downscaling and 1 is a specialized microfinance bank (The First MicroFinanceBank).	
Requirements for Entry		
Licensing	<p>For banks, application to the NBT and submission of necessary documents. Article 18 of the Law on Banks establishes the necessary documents for state registration of a bank and receipt of a license for banking operations. This includes among other things charter documents, information on the founders, proposed executives and managers, and a business plan. Article 19 of the Law on Banks sets for the requirements for executives of a bank.</p> <p>For MDO, applicants must meet the requirements set forth in the Law on MFOs including compliance with application documents, senior executives satisfying the “fit and proper” qualification, and adequate financial standing of any founder of a MDO.</p>	
Legal form(s)	Private banks are joint stock companies. The credit unions are comprised of joint stock companies and one LLC. The 1 non-bank financial institution is a joint stock company. Among the MDOs are closed joint stock companies and LLCs (5 of which include share of foreign capital). Among the MLOs are closed joint stock companies and LLCs. The MLFs are non-for-profit foundations.	
Minimum capital requirements	The minimum regulated capital for acting banks has been set at the amount equivalent to TJS 30 million (\$6.9 million) and for credit societies at the amount equivalent to TJS 20 million (\$4.6 million). The minimum amount of authorized capital for newly founded MDOs from September 1, 2009 has been set in the sum equivalent to \$800,000. The minimum amount of authorized capital for newly founded MLOs has been set in the sum equivalent to \$200,000 from August 1, 2009.	
Regulation and Supervision		
Regulatory and supervisory bodies	The NBT is the licensing, regulatory and supervisory authority in Tajikistan, authorized to issue normative acts for banks and MDOs, define financial standards, impose sanctions and penalties and request reports and	

	documents. The NBT is also the licensing, regulatory and supervisory authority for MLOs and MLFs.
Permissible Activities	<p>For banks, full financial services, including deposits, lending operations, cash operations, transfer operations, accounting operations, financing of capital investments, fiduciary (trust) operations, clearing operations, safe operations, and foreign currency exchange operations.</p> <p>For MDOs, deposits, microcredits, cash operations, issuing guarantees, issuing and accepting payment cards, clearing and settlement operations. After one year under supplemental license a MDO can operate activities in foreign currency.</p> <p>For MLOs and MLFs, making microloans, carrying out financial leasing transactions, and providing consulting and informational services, including business development services, to its clients.</p>
Restrictions on activities	<p>MDOs may not engage activities not specified by law or license or any of the following activities: trade, production or insurance.</p> <p>MLOs and MLFs may not take deposits on engage in other activities not specified by law.</p>
Capital adequacy ratio	<p>Banks, 12%.</p> <p>MDOs, 12%.</p>
Interest rate caps	None.
Lending Limits	<p>For MDOs, loan to single borrower not to exceed the equivalent of \$20,000 or 1% of regulatory capital.</p> <p>For MLOs and MLFs, secured and unsecured, loan to single borrower not to exceed the equivalent of \$20,000.</p>
Limits on Insider Lending	
Reporting requirements	The NBT establishes reporting requirements for banks and MFOs. All banks and MFOs are required to submit annual audited reports.
Other	IFC has been actively involved in drafting and reforming credit bureau legislation in Tajikistan since 2007. Tajikistan adopted a Law on Credit Histories in March 2009, an amendment to the Licensing Law in October 2009, and a Regulation on credit bureau licensing in February 2010. To facilitate the first private credit bureau's establishment and implementation, IFC initiated a working group with potential shareholders and participants in the credit information sharing process. After Credit Information Bureau Tajikistan's registration in April 2010, the working group aims to work further on the bureau's business plan, tender for the CIB technical partner and shareholder, and its subsequent implementation. Both banking and microfinance institutions will share credit information through CIB Tajikistan once it is fully functional.
Ownership	
Requirements and restrictions	<p>Constitutors and shareholders of a bank can be legal entities and individuals - residents and non-residents of the Republic of Tajikistan (taking into account restrictions set forth in this Law). The charter agreement on foundation of a bank, in addition to the information stipulated by the acting legislation, must keep the following in an obligatory order: information on constitutors including the full name and location of each of them, as well as the information on their state registration (for legal entities), the name, citizenship, place of residence and data of the documents identifying the person (for individuals).</p> <p>A microfinance organization can be founded by individuals and legal entities, residents and non-residents of the Republic of Tajikistan. The National Bank of the Republic of Tajikistan may issue normative acts to limit the maximum size of a share package that may be owned by founders of a microfinance organization. Any individual, legal entity or any group of individuals and legal entities acting in concert intending to enter into a transaction that would result in such individual, legal entity or group controlling more than 20% of the voting shares of an MDO, shall submit a written application for approval to the NBT.</p> <p>Any individual or legal entity holding less than 5% of shares of an MDO that, as a result of acquisition of additional shares of the MDO, owns 5% or more of the</p>

	shares shall submit a written notification to the National Bank of Tajikistan within ten days following the date of such acquisition.
Social Capital	No references.
ESOPs	No references.
Transformation Matters	
Prudential requirements	<p>Upon transformation to a Bank, MFOs must meet prudential normative and other compulsory norms established by the NBT. Prudential norms set by the NBT requiring obligatory adherence by banks shall include: a) minimum amount of statutory fund of a bank; b) limited size of the non-cash part of the statutory fund that shall not exceed 20% of the statutory fund of a bank; c) maximum risk for one borrower or a group of related borrowers; d) liquidity ratio; e) capital adequacy ratio; f) size of the foreign exchange, interest and other risks; g) ratio of use of the own funds of banks for acquisition of shares (stocks) of other legal entities; h) maximum size of credits, guarantees and warranties extended by banks to their shareholders.</p> <p>MLOs transforming to MDOs, must meet prudential normative and other compulsory norms established by the NBT including: minimum statutory capital requirements; a requirement that the non-monetary portion of the initial statutory capital not exceed 20%; liquidity requirements; capital adequacy ratio; size of foreign exchange, interest and other risks; ratio of the MDO's capital to its equity investments in other legal entities; requirements to transactions with affiliates; maximum ratio of MDO's deposits to its capital; minimal size of total capital.</p>
Procedures for Termination/liquidation of MFIs	The MLO can be re-organized (merging, transforming, joining, division, separation) in the order established by the legislation of the Republic of Tajikistan. The liquidation of the micro-lending organization is realized in accordance with laws of the Republic of Tajikistan.
Other transformation issues	
Case Studies	<p>IFC provided IMON International Microlending Organization with an investment in the form of a \$2.5 million senior debt facility in May 2008 to develop IMON's funding base and inter alia to provide support in anticipation of its transformation plans. The MFI Transformation Support Project assisted IMON during its change of status from non-profit to a for-profit limited liability company by providing corporate advisory services to senior management and facilitating investor negotiations.</p> <p>The IFC MFI Transformation Support Project in Azerbaijan and Central Asia is assisting Arvand in the transformation process for it to become a microloan and deposit-taking organization.</p>

Annex III: List of Primary Legislation

AZERBAIJAN	
Name of Text	Year
<i>Law On Credit Unions</i>	2000
<i>Articles 87-96 of the Civil Code</i>	2000
<i>Law On the Central Bank of the Azerbaijan Republic</i>	2004
<i>Law On Banks and Banking Activities</i>	2004
<i>Law On Non-Bank Credit Institutions</i>	2009

BOLIVIA	
Name of Text	Year
<i>Law On General Cooperative Societies</i>	1958
<i>Law No. 1488 On Banks and Financial Institutions</i>	1993
<i>Law No. 1670 On the Central Bank of Bolivia</i>	1995
<i>Supreme Decree No. 24000 (Fondos Financieros Privados)</i>	1995
<i>Supreme Decree No. 24439 (Savings and Loan Cooperatives)</i>	1996
<i>Law No. 2297 On Strengthening of Financial Regulations and Supervision</i>	2001
<i>Law No. 3076 (amending 1993 Law on Banks and Financial Institutions)</i>	2005
<i>Law No. 3892 (amending 1993 Law on Banks and Financial Institutions)</i>	2008

BOSNIA AND HERZEGOVINA	
Name of Text	Year
<i>Law on Banks</i>	1998
<i>Law On Microcredit Organizations (MCOs)</i>	2000
<i>Rule book On the Contents and Manner of Keeping the Register of Microcredit Organizations</i>	2000
<i>Decree On Other General Requirements for Business Operations of MCO</i>	2007
<i>Decree On Percentage and Manner for Forming and Maintaining Reserves for the Coverage of Loan Losses</i>	2007
<i>Decree On Requirements and the Procedure for Issuing and Revoking the Operating Permit and Other Approvals Granted to MCOs</i>	2007
<i>Decree On Requirements and the Procedure for Issuing the Operating Permit to a Microcredit Foundation formed Upon the Microcredit Organization's Change of Form</i>	2007
<i>Decree On Requirements and the Procedure for Issuing the Operating Permit and Approvals for Acquiring the Ownership Shares By Investing and Transferring the Microcredit Foundation's Assets</i>	2007
<i>Decree On Supervision of Microcredit Organization Business Operations</i>	2007

KAZKHSTAN	
Name of Text	Year
<i>Law No. 2155, dated March 30, 1995, On the National Bank of the Republic of Kazakhstan (with amendments as of April 17, 2010)</i>	1995
<i>Law No. 2444, dated August 31, 1995, On Banks and Banking Activity in the Republic of</i>	1995

<i>Kazakhstan.</i>	
Law dated March 6, 2003 # 392, <i>On Microcredit Organizations</i>	2003
Law as of March 28, 2003 No. 400-II <i>On Credit Co-operatives</i> (including amendments and alterations as of 23.12.2005)	2003

KYRGRZ REPUBLIC	
Name of Text	Year
Law No. 60 of 1997 <i>On Banks and Banking Activities in the Kyrgyz Republic</i>	1997
Law No. 59 of 1997 <i>On the National Bank of the Kyrgyz Republic</i>	1997
Law No. 124 of 2002 <i>On Microfinance Organizations in Kyrgyz Republic</i>	2002
Temporary Rules for regulations of activities of Microfinance Companies	2002
Regulation No. 5-1 of 2007 <i>On Licensing, Reorganization and Liquidation of Microfinance Companies</i>	2007

MONGOLIA	
Name of Text	Year
<i>Banking Law</i>	1996
Regulation No. 668 <i>On Licensing of Non-Bank Financial Institutions and Its Revocation and Supervision</i>	1999
The Law <i>On Central Bank</i> (and related amendments)	2001
Regulation No. 566 <i>On Executing Consolidated Supervision of Bank, Non-Bank Financial Institutions</i>	2002
Regulation No. 136 <i>Application for a License to Engage in Non-Bank Financial Activities</i>	2003

MOROCCO	
Name of Text	Year
Banking Law	1993
Loi No. 18-97 Relative au micro-crédit	1999
Law No. 58-03 amending and supplementing Law No. 18-97	2004
Loi No.34-03 Relative aux Établissements de Crédit et Organismes Assimilés	2001
Directive relative à la gouvernance au sein des Associations de Micro-crédit	2009

TAJIKISTAN	
Name of Text	Year
Law <i>On Banks and Banking Activities</i>	1998
Law <i>On Microfinance Organizations</i>	2004
Regulation # 135: <i>On Procedures Regulating the Activities of Micro-Credit Deposit Organizations</i>	2005
Regulations # 136 <i>On Micro-Lending Organizations</i>	2005
Regulations # 137 <i>On Micro-Lending Funds</i>	2005