



REGULATIONS FOR MICROLOAN INSTITUTIONS IN BHUTAN 2014

Pursuant to the power vested with the Royal Monetary Authority of Bhutan under Section 8(a) and 9(h) of the Royal Monetary Authority Act, 2010, all Microloan Institutions shall comply with this regulation.

CHAPTER 1:
PRELIMINARY

1. Short Title, Extent and Commencement

- (1) These regulations shall be called the Regulations for Microloan Institutions, 2014.
- (2) They shall be applicable to all Microloan Institutions registered with the Royal Monetary Authority.
- (3) These regulations shall come into effect from September 2014.

2. Definitions

- (1) In these regulations, unless the context otherwise requires,-
 - a) "Authority" means the Royal Monetary Authority of Bhutan;
 - b) "Compulsory savings" means funds that must be contributed by a borrower of an institution as a condition for receiving a loan either as a percentage of the loan or as a nominal amount;
 - c) "Microloan client" means a client that meets either or both of the following characteristics: -
 - i) has a low income; or
 - ii) is a microenterprise;
 - d) "Micro lending business" means the business of making microloans;
 - e) "Microloan" means a loan to a microfinance client not exceeding Nu. 500,000. However, the loan shall not be provided for personal consumption purposes;
 - f) "Microloan institution" means a legal person conducting micro lending business;
 - g) "Related party" means a party who is considered to be related if he/she has the ability to control, or exercise significant influence over the **DTMFI** in making financial and operating decisions, and includes the following:-
 - i) significant owner;
 - ii) a member of the Board of Directors;
 - iii) officers and employees of the institution;
 - iv) Parents, spouse, in laws, siblings, cousins, children and any relatives of persons specified in
(i) (ii) and (iii);
 - v) any individual for whom a director, significant owner, officer or employee is a guarantor;
 - vi) any firm or company in which a significant owner, director and officer or employee has an interest as owner, partner, or has a direct or indirect equity interest equal to or exceeding 10 percent of the paid-up equity capital;

- vii) another financial institution with cross-shareholding in, or a high degree of influence over the financial institution;
 - viii) the parent company, subsidiary, fellow subsidiaries and affiliates of the financial institution.
- (2) All other words and expressions used but not defined in these regulations shall have the same meanings assigned to them in the Financial Services Act, 2011, and in the Royal Monetary Authority Act, 2010, unless the context otherwise requires.

CHAPTER II:

REGISTRATION OF MICROLOAN INSTITUTIONS

3. Objectives

- To bring microfinance business into mainstream banking services and serve the unserved and underserved segment of the population.
- To ensure easier credit access to rural communities through an appropriate and innovative alternative financing system;
- To provide financial support to rural communities for them to produce goods and services;
- To empower women at all levels to participate in income-earning activities and to facilitate their involvement in participatory decision-making processes;
- To contribute to the socio-economic development of urban and rural poor communities through providing financial support and services to the clients' initiated income generating projects, resulting in the improvement of their quality of life and enabling them to achieve social equity.

4. Scope of Regulations and limitations

- (1) Pursuant to Section 11 of the Financial Services Act, 2011, no person shall conduct micro lending business other than a bank or a DTMFI authorized by the Authority, or a microloan institution registered under these Regulations.
- (2) These regulations do not apply to Persons with fewer than [50] borrowers;
- (3) A Microloan Institution is not a Financial Institution
- (4) A Microloan Institution shall not enter into any related party transaction.

5. Registration of Microloan Institutions

- (1) A person intending to conduct micro lending business shall make an application for a certificate of registration to the Authority in the prescribed form accompanied by a non-refundable application fee of Nu. 5,000 (Ngultrum Five Thousand) only.
- (2) The application shall contain:
 - a) Documents confirming that the applicant has juridical status;

- b) Name, address and telephone number of the contact person;
 - c) Location of the proposed head office, branches and other offices where loan services will be offered;
 - d) Names of senior managers, their bio data, educational qualifications, and records of criminal convictions, if any;
 - e) Names of significant owners and/or sponsors/donors, their bio data, educational qualifications, and records of criminal convictions, if any;
 - f) Names of Directors, their bio data, educational qualifications, and records of criminal convictions, if any; and
 - g) Comprehensive information on target groups and target activities of the proposed microloan institution.
- (3) The Authority shall issue a certificate of registration or refuse the application within one month from receiving the application and all required documents for registration.
- (4) A applicant for a registration as a microloan institution whose application has been refused under Sub-Section (3) or suspended, restricted or withdrawn may, within thirty days from the date on which the order is communicated to him or her, appeal against the decision to the Board of the Authority.
- (5) A microloan institution shall commence its operation of business upon submission of a copy of a valid trade license to the Authority.
- (6) A microloan institution shall commence its operation within 6 months from the date of issuance of registration certificate, failing which the Authority may revoke the registration certificate.
- (7) A registration certificate shall be valid for a period of one year. Application along with non-refundable renewal registration certificate fee of Nu. 5000 (Nu. five thousand only) shall be submitted thirty (30) days before the expiry of the registration certificate to the Authority.
- (8) A microloan institution shall maintain a minimum paid-up capital of not less than Nu. 2 million or such other or higher amount as stipulated by the Authority from time to time.

CHAPTER III:

REPORTING, INSPECTIONS, AND SANCTIONS

6. Reporting

- (1) Every microloan institution shall get its books of accounts audited and submit a copy of the annual audited accounts to the Authority within three months of the close of the financial year.
- (2) Every microloan institution shall, quarterly and within one month of the end of the reporting period, submit to the Authority in the prescribed form information regarding: 1) its loan portfolio including, but not limited to, the number of borrowers, aggregate outstanding loan

portfolio, and a breakdown of loans by size; 2) donors/sponsors, with detail of the funds received.

- (3) Changes in the senior management and significant owners shall be submitted for approval to the Authority.
- (4) Opening and closing of branches and other offices shall be reported to the Authority within onemonth of the incident.

7. Inspections

The Authority may, at any time, with or without prior notice but upon presentation of a notice of inspection, conduct examinations or inspections of a microloan institution's operations and may appoint any person to exercise the powers of the Authority under this section. Whenever the circumstances warrant, such access shall extend to the agents, partners, service providers or outsourced entities of the microloan institution in view of their participation in the microlending business.

8. Penalties and Sanctions

- (1) The Authority shall prescribe fines for non-compliance with the provisions set forth in these regulations.
- (2) The Authority may by notice in writing to an registered microloan institution, revoke or suspend an authorization to conduct microlending business for such period as it may specify, if the microloan institution: -
 - a) ceases to carry on microlending business in Bhutan or goes into liquidation, is wound up, or is otherwise dissolved; or
 - b) fails to comply with the provisions of these regulations.
- (3) Before revoking or suspending a registration under Section 4 of these regulations, the Authority shall give a microlending institution not less than fourteen days notice in writing and shall consider any representations made to it in writing by the microlending institution within that period.

CHAPTER IV:

CONSUMER PROTECTION

9. Disclosure of Basic Terms & Conditions of Microloans

- (1) Microloan institutions shall enter into a written agreement with every microloan client whom they issue a microloan.
- (2) All microloan institutions shall follow the Simple Daily Product Method for computation of interest on loans and advances.

- (3) As the clients of microloan institutions are largely poor and illiterate, it is incumbent upon microloan institutions to facilitate the public in making informed decisions.
- (4) Microloan institutions shall make adequate efforts to educate their clients on important terms and conditions of all their loan products. While making a complete disclosure of the lending rates of all their loans and any other charges in the contract/documents signed with their clients, microloan institutions' relationship officers shall also read out these terms before their clients.
- (5) Microloan institutions shall also display important terms and conditions of their products on entrance/ or window of their branches and other offices.

10. Complaint Procedures

- (1) Microloan institutions shall set up effective procedures that allow microloan clients to submit complaints. At a minimum, these procedures shall: -
 - a) provide easily understood information about the customer care system, including the customer care contact number that should be easily accessible at least during normal business hours;
 - b) allow for complaints to be lodged orally or in writing, but in each case the complaint must be lodged within a period of 30 days from the date of occurrence;
 - c) be provided free of charge;
 - d) provide for complaints to be resolved within sixty days of lodging.
- (2) Microloan institutions shall acknowledge all complaints filed with them.
- (3) At the time of making a complaint the complainant shall be advised of the expected actions and timing for investigating and resolving the complaint.
- (4) Microloan institutions shall put in place processes to provide complainants with sufficient information and the means to inquire on the progress of complaints and such processes may include complaint reference numbers or other identifiers in order to facilitate timely and accurate responses to subsequent inquiries by complainants.
- (5) Complainants shall be advised of the outcome of the investigation of their complaint, and any resulting decision by the microloan institution.
- (6) Where a complainant is not satisfied with a decision reached pursuant to a complaint, the microloan institution shall give the complainant the option of pursuing an identified escalation process by which the decision may be examined by a suitably qualified person in the microloan institution's organization.

11. Safeguards against Over-Indebtedness

- (1) The microloan institution shall develop an internal policy to monitor the overall exposure of its

borrowers so as to manage credit risk and also minimize the borrowers' over-indebtedness risk.

- (2) At the time of granting a loan, microloan institutions shall obtain a credit information report from the Credit Information Bureau. Microloan institutions have to report to the Credit Information Bureau the credit granted on monthly basis.

12. Interest rates and commissions

Microloan institutions shall determine microloans rates and commissions according to market mechanisms.

CHAPTER V:

MISCELLANEOUS

13. Compliance with other ACTs

Non-Governmental Organizations (NGOs) needs to ensure compliance to the Acts and laws governing them.

Date:

Hon'ble Governor
Royal Monetary Authority of Bhutan
Post Box 154
Thimphu, Bhutan

Sub: Application for Registration as Microloan Institutions

Hon'ble Dasho,

I/We would like to request to be registered as a Microloan Institutions under Section 4 of the Regulation for Microloan Institutions in Bhutan. I/We confirm and declare that all applications made by us/me are in full compliance with the said regulation issued by the Authority. I/We further confirm and declare that we are satisfied to the best of our knowledge, information and belief that there is no information or statement nor is there any omission which would make our application false or misleading. I/We undertake to provide to Authority such information and documents as the Authority may reasonably require in relation to the application.

For and on behalf of proposed company/business

Yours faithfully,

Name:
CID No:
Address:
Tel No.:
Fax No.:
Email:

Encl: Documents pertaining to the application.

LICENSING APPLICATION FORM

Please ensure that this form is filled properly. In case of any clarifications, please feel free to call 323111 (219) or visit Financial Regulation and Supervision Department of the Authority).

Instructions for filling up the form

- i. It is important that before this application form is filled in, the regulations made by the Authority are studied carefully and understood in full.
- ii. Applicants must submit a duly completed application form together with all appropriate, supporting documents to the Authority.
- iii. Application for license will be considered only if it is complete in all respects.
- iv. Applicants should sign the application form.
- v. Information which needs to be supplied in more details may be given on separate sheets which should be attached to the application form.

1) PARTICULARS OF THE APPLICANT

- | | | | |
|-----|-------------------------------|---|--|
| 1.1 | Name of the applicant | : | |
| 1.2 | Address | : | |
| 1.3 | Name of the proposed company* | : | |
| 1.4 | Registration number* | : | |
| 1.5 | Date/Place of registration* | : | |
| 1.6 | CID Number** | : | |
| 1.7 | Telephone Number | : | |
| 1.8 | Fax No. | : | |
| 1.9 | Email | : | |

Notes:

*Complete if the applicant is a company

** Complete if the applicant is an individual

1.10 Postal Address for correspondence : _____

2) Organization Structure

2.1 Status of the applicant (Individual or company or organization) : _____

2.2 If applicable, copy of draft Articles of Incorporation (final Articles of Incorporation to be submitted upon approval from the registrar of companies)

2.3 Name and address of the Principal Banker of the applicant :

2.4 Particulars relating to the significant shareholders, promoters, board of directors & key post holders of the company to be completed in the prescribed format Annexure III.

3) Details of infrastructure like office space, equipment and manpower available with the applicant after the “In-Principal Approval”.

4) Any other information considered relevant to the nature of services rendered by the applicant.

DECLARATION

I, the undersigned, solemnly declare that the above information given in this application form and other documents submitted on behalf of the proposed Microloan Institution are true, complete and correct to the best of my knowledge and belief.

Should the Authority come across any inconsistencies on the information provided, I hereby agree to fully abide by the penalties as specified under Section 138 of the Financial Services Act of Bhutan 2011.

Further, I would like to pledge that upon registration to conduct the business, the proposed company or organization will not violate any laws and regulation of the Authority.

Name:

Position:

Citizenship ID No:

(Please attest copy) Signature

Date:

(Affix Legal Stamp):

BIOGRAPHICAL REPORT (for promoters, significant owners, board of directors and key post holders)**1. Personal Details.**

a. Name	
b. Date of Birth	
c. Nationality	
d. Citizenship ID No.	
e. Passport No. (Non-Bhutanese)	

2. Contact Information

a. Telephone No	
b. Mobile No.	
c. Fax No.	
d. E-mail	

3. Present Position.

a. Name and Address of the Firm	
b. Nature of Business	
c. Telephone No	

4. Education

Name & Address of University	Years of Attendance	Major Area of Study	Degree/Certificate Granted	Date Awarded

5. Employment Record (Pertaining to previous 5 years). Use additional sheets, if necessary, and account for all gaps in employment.

Position held & Department	Main responsibilities	Organization	Country	Duration

6. Do you have a license to practice any profession? If yes, please give details. Yes No

a. Nature of License	
b. Date of Issue	
c. License/Registration No.	
d. Licensing Agency and Address	

7. (a) If self-employed, describe each enterprise, including the name, address, license number, your percentage of ownership and the type of business, which you own, or control. (Control means ownership of 10% or more of the stock or ability to effectively control the management of the corporation or other entity).

(b) List names, addresses and percentage of control of other incorporators, partners, directors, or officers of the entity or corporation referred to above.

<p>8. Are you employed in any professional capacity, or do you perform any services for or have any business connections with any institution, which is subject to the supervision of the Royal Monetary Authority of Bhutan, or any other authority of the Royal Government of Bhutan? If "Yes", indicate the name of the institution, address and nature of your work.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
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<p>9. Have you had, or do you now have, any financial interest, direct or indirect, in any financial institution in Bhutan If "Yes", give the name of the institution, address and nature of the financial interest.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No
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10. Please tick whichever is relevant for the following questions below:

1. Do you have more than 3 years' experience in micro finance related field.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
2. Were you or the company you worked for declared insolvent and adjudicated bankrupt.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
3. Were you convicted by a court in any criminal offense or has been involved in any fraud/forgery, financial crime or other illegal activities.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
4. Are any of your loan accounts with financial institutions classified as non-performing at any point of time (loan default by 90 days).	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

11. Answer "Yes" or "No" to any of the questions below if they apply to you as an individual, or a partner, director or officer of a company or organization except for minor traffic violations.

a. Are any arrests, indictments, criminal information or other criminal proceedings now pending against you? A copy of Security Clearance to be attached.	Yes <input type="checkbox"/> No <input type="checkbox"/>
b. Were you ever convicted for any violations of the law?	Yes <input type="checkbox"/> No <input type="checkbox"/>
c. Have you or has any partnership of which you were a CEO or a major owner (more than or equal to 10% of the capital of the company) ever been liquidated or judged bankrupt?	Yes <input type="checkbox"/> No <input type="checkbox"/>
d. Has any business of which you were a director, officer, partner or major shareholder (10% or more of the voting shares) defaulted on his/her loan repayment?	Yes <input type="checkbox"/> No <input type="checkbox"/>
e. Has any enterprise in which you were a partner, director or officer been the subject of criminal indictment or other criminal proceedings?	Yes <input type="checkbox"/> No <input type="checkbox"/>

DECLARATION

I certify that I am aware that it is an offence under Section 138 of the Financial Services Act of Bhutan 2011 to provide the Authority any information which is false or misleading in a material particular.

I certify that the information given in the form above and accompanying documents is complete and accurate to the best of my knowledge, information and belief and that there are no other facts relevant to this application of which the Authority should be aware.

I also undertake that as long as I continue to be a Applicant/Director/promoter/significant shareholder/key post holder, I will notify the Director of the Financial Regulation and Supervision Department of the Authority of any material changes to, or affecting the completeness or accuracy of, the information given above as soon as possible, but in any event no later than 10 days from the day the changes come to my attention.

Further, I would like to pledge that as long as I continue to be an Applicant/Director/promoter/significant shareholder/key post holder of the company, I will not violate any laws and regulations of the Authority.

Name:
Position: Citizenship
ID No:(please attest
copy)

Date:

Signature (Affix Legal Stamp):