

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Non-Bank Microfinance Guide

NIC Building, 63 Jinnah Avenue, Islamabad, Pakistan

Tel: 051-9207091-4, UAN: 111 117 327

Fax: 051-9204915

Website: www.secp.gov.pk

Disclaimer

The purpose of this User Guide is to provide information and guidance to end users. The information contained herein is subject to change without prior notice. While every effort is made to ensure accuracy and completeness of information contained, the Commission makes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information for any claim, demand or cause of action. In no event shall the Commission be liable for direct, indirect, special, incidental or consequential damages of any nature or kind arising from the use of this document.

Contents

1	What is Microfinance?
2	What is Microenterprise?
3	What is Non-Bank Microfinance Company?
4	Who is a poor person?
5	Who regulates Non-Bank Microfinance Institutions and under which laws?
6	Why do people need Microfinance?
7	Who are the clients of NBMFCs?
8	What is a Microfinance Provider?
9	Who can apply for license to undertake business of Microfinancing?
10	What is the fee for obtaining License to undertake Microfinance business?
11	What is the term for which IFS License is issued?
12	What is the procedure for an existing “not for profit company” to obtain approval to undertake business of Microfinancing?
13	What is the procedure for a new “not for profit company” to obtain approval to undertake business of Microfinancing?
14	What is the procedure for a new “for profit company” to obtain approval to undertake business of Microfinancing?
15	What is the Minimum Equity Requirement for obtaining IFS License to undertake Microfinance business?
16	What are the maximum exposure of NBMFCs to a single person or Group?
17	What are the minimum conditions for NBMFCs for providing finance?
18	What is the total exposure to a single borrower from all Financial Institutions?
19	What is the minimum limit on assets of NBMFCs that are required to be invested in Microfinancing?
20	What is the general provisions for NBMFCs against their respective Microfinance portfolio?
21	What relaxations in regulatory requirements are available for NBMFCs which offer Microfinancing as ancillary business?
22	What are the reporting requirements for NBMFCs?
23	What major terms and conditions are applicable on NBMFCs?

1. What is Microfinance?

Microfinancing means finance provided to a poor person or microenterprise. Microfinance is the supply of loan and other basic financial services to the poor except deposits. People living in poverty need a diverse range of financial instruments to run their businesses, build assets, stabilize consumption and shield themselves against risks. Financial services needed by the poor include working capital loans, consumer credit, savings, pensions, insurance and money transfer services.

The poor rarely access services through the formal financial sector. They address their need for financial services through a variety of financial relationships, mostly informal. Credit is available from informal commercial and non-commercial money-lenders, but usually at a very high cost to the poor borrowers.

Providers of financial services to the poor include donor-supported, non-profit & non-governmental organizations (NGOs) and cooperatives, community-based development institutions like self-help groups and credit unions, commercial and state banks, insurance and credit card companies, post offices and other point of sale. Non-bank financial institutions (NBFI) and NGOs have led the way in developing workable credit methodologies for the poor and reaching out to large numbers of the poor.

2. What is Microenterprise?

Microenterprises means projects or businesses in trading or manufacturing or services or agriculture that lead to livelihood improvement and income generation. These projects or businesses are undertaken by micro-entrepreneurs who are either self-employed or employ few individuals not exceeding 10 (excluding seasonal labour).

3. What is Non-Bank Microfinance Company?

Non-Bank Microfinance Company (NBMFC) is a non-deposit taking Non-Bank Finance Company (NBFC) primarily engaged in the business of Microfinancing as specified by the Commission from time to time.

4. Who is a poor person?

Poor person means an individual who has meager means of subsistence and whose total business income excluding expenses during a year is less than or equal to PKR 600,000 or such other minimum limit prescribed from time to time.

5. Who regulates Non-Bank Microfinance Institutions and under which Laws?

The Securities and Exchange Commission of Pakistan (SECP) regulates the NBMFCs under the following regulatory framework:

- Companies Ordinance, 2016;
- Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, as amended vide S.R.O. 1002(I)/2015;
- Non-Banking Finance Companies and Notified Entities Regulations, 2008, as amended vide S.R.O. 1160(I)/2015.

6. Why do people need Microfinance?

Microfinance is seen as a way to provide poor people with the means to participate in the economy and generate their own income. They may even become micro-entrepreneurs and set up small businesses.

7. Who are the clients of NBMFCs?

Microfinance is designed to help those regarded as poor, a very diverse group, spread across the country. Majority clients of Microfinance—female heads of households, pensioners, displaced persons, retrenched workers, small farmers, and micro-entrepreneurs—fall into four poverty levels: destitute, extreme poor, moderate poor, and vulnerable non-poor. While repayment capacity, collateral availability, and data availability vary across these categories, methodologies and operational structures have been developed that meet the financial needs of these client groups in a sustainable manner.

8. What is a Microfinance Provider (MFP)?

There are two types of MFPs in Pakistan; (i) Microfinance banks regulated by State Bank of Pakistan (SBP), (ii) Microfinance companies regulated by SECP. MFP, being an organization that provides financial services to the poor, include a wide range of providers that vary in their legal structure, mission, methodology and sustainability. However, they all share the common characteristics of providing financial services to a clientele poorer and more vulnerable than traditional bank clients.

9. Who can apply for license to undertake business of Microfinancing?

NGOs registered with SECP under section 42 of the Companies Ordinance, 1984 as a not for profit companies, limited by guarantee can directly apply for Investment Finance Services (IFS) license to undertake micro finance business.

NBMFIs formed under any other legislation are required to do the following: (i) they can get registered with SECP under section 42 of the Companies Ordinance, 1984 and then apply for license to undertake IFS OR (ii) they can register themselves as an NBFC with the main object to undertake micro financing and then apply for license to undertake IFS.

The existing NBFCs apart from Microfinance companies e.g. a leasing company can also undertake Microfinance business subject to the fulfillment of certain regulatory requirements, compliance of Fit & Proper (F&P) Criteria, Minimum Equity Requirement (MER).

Companies are, however, prohibited to undertake Microfinance business without obtaining license from SECP under section 282C(3) read with section 282K(3) of the Companies Ordinance, 2016.

10. What is the fee for obtaining License to undertake Microfinance business?

NBMFCs shall pay PKR 375,000 for obtaining IFS license to undertake or carry out an activity or function, as required under schedule II of NBFC&NE Regulations, 2008.

11. What is the term for which IFS license is issued?

The license granted shall be valid for three years from the date of its issuance and shall be renewable upon expiry of the said period by making an application at least one month prior to the expiry as set out in Form IV of NBFC Rules, 2003 along with payment of prescribed fee.

12. What is the procedure for an existing “not for profit company” to obtain approval to undertake business of Microfinancing?

The ‘not for profit company’ will have to submit an application to Specialized Companies Division, (SCD) SECP Headquarter Islamabad on Form II of the Non-Bank Finance Companies (Establishment and Regulations (NBFC) Rules along with all relevant supporting documents and deposit of

prescribed fee for grant of license for IFS to undertake the business of Microfinancing. Along with the application, the company will have to submit details of its promoters/sponsors/CEO/Directors with regards to their compliance with the F&P Criteria given in the Schedule IX of the Non-Bank Finance Companies & Notified Entities (NBFC&NE) Regulations, 2008.

13. What is the procedure for a new “not for profit company” to obtain approval to undertake business of Microfinancing?

Prospective not for profit company desirous of undertaking business of Microfinancing will follow the following procedure:

- Application to Company Law Division (CLD) SECP Headquarter Islamabad for grant of license under section 42 of the Companies Ordinance.
- Incorporation of company, at concerned Company Registration Office, as per the existing procedures, forms and fees.
- Application to SCD, SECP Headquarter Islamabad on Form II of NBFC Rules, 2003 along with all the relevant documents and deposit of the prescribed fee for grant of license for IFS to undertake the business of Microfinancing. Along with the application, the company will have to submit details of its promoters/sponsors/CEO/Directors with regards to their compliance with the F&P Criteria given in the Schedule IX of the NBFC&NE Regulations, 2008.

14. What is the procedure for a new “for profit company” to obtain approval to undertake business of Microfinancing?

Prospective ‘for profit company’ desirous of undertaking business of Microfinancing will follow the following procedure:

- Application on Form I of the NBFC Rules, 2003 along with all relevant supporting documents and deposit of prescribed fee, to SCD, SECP Headquarter Islamabad for obtaining permission to form a NBFC.
- Incorporation of company, at concerned Company Registration Office, as per the existing procedures, forms and fees.
- Application to SCD, SECP Headquarter Islamabad on Form II of NBFC Rules, 2003 along with all the relevant documents and deposit of the prescribed fee for grant of license for IFS to undertake the business of Microfinancing. Along with the application, the company will have to submit details of its promoters/sponsors/CEO/Directors with regards to their compliance with the F&P Criteria given in the Schedule IX of the NBFC&NE Regulations, 2008.

15. What is the MER for obtaining IFS license to undertake Microfinance business?

An NBMFI licensed by the Commission to undertake Microfinance business shall at all the times, meet the MER of PKR 50 million, as provided in Schedule I of the NBFC&NE Regulations, 2008.

16. What are the maximum exposure of NBMFC to a single person or Group?

The following exposure limits are applicable for the non-bank Microfinance companies:

- (a) Poor Person
PKR 500,000 for housing loan
PKR 200,000 for general loans other than housing loan
- (b) Microenterprises: *PKR 500,000*

17. What are the minimum conditions for NBMFCs for providing finance?

- a. NBMFC shall obtain a credit report from Credit Information Bureau of State Bank of Pakistan or any other appropriate credit information bureau before allowing any Finance exceeding PKR 10,000;
- b. NBMFC shall at the time of granting finance obtain a written undertaking as given in Schedule XII of NBFC&NE Regulations from the borrower disclosing details of various facilities already obtained from other Financial Institutions.

18. What is the total exposure to a single borrower from all Financial Institutions?

The total exposure of NBMFCs to a single borrower from all Financial Institutions shall not exceed PKR 700,000.

19. What is the minimum limit on assets of NBMFCs that are required to be invested in Microfinancing?

A NBMFC shall invest at least fifty percent of its assets in Microfinancing, provided that cash, deposits with financial institutions and investment in government securities shall be excluded to calculate this limit.

20. What is the general provision for NBMFCs against their respective Microfinance portfolio?

NBMFCs shall maintain a General Provision equivalent to 0.5% of the net outstanding Microfinance portfolio (finance net of specific provisions) provided that general provision shall not be required in cases wherein finance is secured against liquid assets with appropriate margins.

21. What relaxations in regulatory requirements are available for NBMFCs which offers Microfinancing as ancillary business?

NBMFCs undertaking Microfinance business whose Microfinancing assets are less than or equal to 30% of its total assets as on the date of audited financial statements may undertake Microfinancing as ancillary business and enjoys relaxations from the following rules:

- 5(6)(a): Eligibility criteria given in Schedule I;
- 5(6)(d): Allocation of 25% of its paid-up capital to the promoters;
- 5(6)(e): Promoters or majority shareholders and directors have deposited their shares with Central Depository Company of Pakistan Limited in an account marked as block and such shares shall not be sold or transferred without prior approval of the Commission and shall be kept unencumbered;
- 5(6)(f): Promoters or majority shareholders and directors have given an undertaking that they shall not enter into any agreement for sale or transfer of their shares in any manner without prior approval of the Commission;
- 5(6)(g): Appointment of Chief Executive who does not hold such office in any other company except for an investment company being managed by said company, provided that prior approval of the Commission has been obtained in this regards;
- 7(1)(c): Appoint an individual, having minimum three years' experience, as its financial or chief accounting officer with prescribed qualification;
- 7(1)(ca): (i) Appoint as internal auditor, a person having minimum three years relevant experience with prescribed qualification, (ii) a chartered accountancy firm having satisfactory Quality Control Review(QCR) and not being the statutory auditors to whom this function is outsourced;

- 7(1)(cc): Appoint such executives who shall fulfill the terms and conditions mentioned in the F&P criteria specified by the Commission by notification in the official Gazette;
- 7(1)(cd): Appoint the directors in accordance with Schedule I, provided that the Commission shall be the final authority to determine the status of director as independent or otherwise;
- 7(1)(h): Obtain rating in accordance with Schedule-I as and when it becomes eligible for rating;
- 7(1)(i): Publish the rating in its annual report and quarterly reports and any advertisement and brochures in relation to promotion of its business;
- 7(2)(a): Shall not appoint as director those persons who hold such office in any other NBFC licensed for the same purpose;
- 7(2)(aa): Shall not appoint or change its chief executive or any of its directors subject to fulfillment of the F&P criteria and prior approval of the Commission provided that the Commission may refuse appointment of any person;
- 7(2)(b): Shall not enter into premises leasing or renting, and sale or purchase of any kind with their directors, officers, employees or their close relatives or any person acting on their behalf or such persons who either individually or in concert with family members beneficially own 10% or more of the equity of the NBFC.
- 7(2)(l): Shall not provide unsecured facilities or exposures except as specified by the Commission by notification in the official Gazette;
- 9: Shall obtain sufficient insurance coverage from an insurance company rated minimum A- by a credit rating agency registered with the Commission against any losses that may be incurred as a result of employee's fraud or gross negligence. The NBMFC shall make disclosure about the insurance coverage in its financial statements.

22. What are the reporting requirements for NBMFCs?

The reporting requirements for NBMFCs are:

- to furnish its quarterly and annual financial statements to the Commission according to the requirements laid down in the Companies Ordinance, 2016;
- to submit their monthly returns through the Specialized Companies' Return System (SCRS) by 10th of every month, as per the requirements laid down in Circular No. 1 of 2010 dated January 15, 2010.

23. What major terms and conditions are applicable on NBMFCs?

A NBMFC shall in addition to the conditions specified in NBFC Rules, 2003, NBFC&NE Regulations 2008 and any other conditions that may be specified by the Commission, operate in accordance with the following conditions:

- Provide finance in the name of individuals to ensure traceability and reduce the incidence of multiple borrowing;
- Develop an internal mechanism to monitor the overall exposure of its borrowers so as to manage credit risk and also minimize the borrowers' over indebtedness;
- Develop and implement appropriate pricing policies that ensure access to affordable financial services and operational and financial sustainability of NBMFC;
- Deliver to the borrower, at the time a finance is granted, a statement showing in clear and distinct terms the amount, date of the disbursement, monthly installment, the nature of the security, if any, the name and address of the borrower and the rate of mark-up to be charges;

- Give to the borrower a receipt for every repayment made on account of any finance at the time of such payment; and
- On full repayment of finance by the borrower in case of individual lending or all the borrowers in case of group lending mark indelibly with words indicating payment or cancellation of every paper signed by the borrower pertaining to the finance and discharge any mortgage, revoke any pledge, return any note, and cancel any assignment given by the borrower or borrowers as security.