



## **Annexure-II**

### **ESTABLISHING MICROFINANCE BANKS**

#### ***Category of Microfinance Banks***

The MFIs' legal framework allows establishment of three categories of formal microfinance banks in the country viz:

- Nation wide MFBs - minimum paid-up capital of Rs.500 million
- Province wide MFBs - minimum paid-up capital of Rs.250 million and
- District wide MFBs - minimum paid-up capital of Rs.100 million

#### ***The Licensing, Regulatory & Supervisory Agency***

The licensing, regulation and supervision of MFBs established/to be established under MFIs ordinance 2001 has been entrusted to State Bank of Pakistan under MFIs legal framework. No institution/person could commence operations as microfinance bank unless granted license by the State Bank under section 13 of the MFIs ordinance.

#### ***Who Can Apply for a License for Establishing Microfinance Banks***

Any person or group of persons, Pakistan or Foreign national, having requisite financial and managerial capacity and exposure to and understanding of dynamics of the MF Sector as well as established integrity levels may apply for a license under the MFIs Ordinance.

#### ***Ineligibility to Become Sponsors/Directors***

Any person (s) having any of the following disqualification shall not be eligible to be a Director on the Board of MFB:

- a) has been convicted by a court of law in Pakistan or abroad for a criminal offence;
- b) has been associated with any illegal activity especially contravention of banking and corporate laws.
- c) has failed to meet his/her obligations to banks and other financial institutions. The Sponsors/Directors shall furnish names of the banks/DFIs and their branches with which they have had dealings along with the reports from such Banks/DFIs.
- d) has defaulted in payment of taxes- each director and sponsor shall indicate his/her National Tax Numbers.
- e) is or has been associated as Director/Chief Executive with the Corporate Bodies whose corporate and tax record including customs duties, central



excise and sales tax has been unsatisfactory. They shall name the corporate bodies, their bankers and disclose their tax numbers and dividend record. Those not so associated with Corporate Bodies would be required to indicate their occupation/profession/trade and highlight their achievements.

- f) is member/office bearer of any political party or member of Senate, National/Provincial assembly/assemblies
- g) In the opinion of the sanctioning authority maintains adverse reputation regarding integrity and performance.

### ***Minimum Capital Requirement***

No MFB shall commence business as microfinance bank unless it has a capital of Rs.500 million, Rs.250 million and Rs.100 million respectively for countrywide, specific province-wide and specific District-wide microfinance banks.

The NGOs/Projects already providing micro credit and allied services to the poor, may apply for a license under the MFIs Ordinance. They may contribute up to 50 percent of the required capital in the form of their existing portfolio of micro-credit and other assets (net of losses) after due diligence by a reputed Chartered Accountancy firm on the SBP's panel of auditors. The remaining 50% will however, be contributed in the form of cash or Government securities.

### ***Minimum Contribution by Sponsors***

The promoters or sponsor members shall subscribe at least 51% of the minimum capital and the shares subscribed to by the sponsors shall remain in the custody of State Bank and shall not be transferable nor shall encumbrance of any kind be created thereon without prior permission in writing from SBP.

### ***Net worth of Sponsor Directors***

The declared personal Net worth Sponsor Directors shall not be less than the amount to be subscribed by them personally. The Net Worth shall be indicated and supported by a duly authenticated copy of the latest Wealth Statement filed with the taxation Department. In case sponsor Directors residing in countries where filing of Wealth Statement is not a requirement of law, a certificate of Personal Net Worth and General Reputation issued by an international bank of repute would be acceptable. This facility would also be available to applicants who would have returned to Pakistan within six months of submission of application for grant of license.



The institutional sponsors shall submit a resolution of their respective Boards/Governing Bodies for i) sponsoring the MFB/MFIs either individually or in collaboration with other persons ii) the amount to be subscribed and iii) the nomination of Directors representing the institution on the MFB/ MFI Board. They shall also submit latest audited financial statements along with the auditors' opinion on the financial repute and capacity of the institution to make the proposed investment in the MFB/MFI.

### ***Public Floatation of Share Capital***

In case the sponsors are interested in raising some capital through public floatation of the share capital, firm commitment from 'A' rated underwriting firms to underwrite the public floatation shall be submitted along with the application for grant of license.

### ***Foreign Investment***

Foreign investment shall be allowed in accordance with the Govt. Foreign Investment Policy. While dividends may be repatriated with SBP approval, the repatriation of capital will be allowed at inter-bank exchange rate in case of sale of shareholding to sponsors acceptable to SBP.

### ***Structure of the MFB Board***

The MFB Board shall have at least seven members and not more than 25% of the members shall be from the same family.

No person shall be on the Board of more than one Microfinance Banks/Institutions. Similarly, no group shall be granted license for establishing more than one Microfinance Banks/ Institutions.

### ***President/ Chief Executive***

The President/Chief Executive shall be a professional with sufficient experience as Microfinance Specialist or Senior Banker with no adverse information regarding his/her integrity and performance and his/her appointment, as President/Chief Executive shall be subject to SBP clearance.

### ***Commitment Letters by Sponsors/Directors/President***

The Sponsors/Directors, Chief Executive and Members of senior Management team shall submit commitment letters to subscribe the committed capital and serve in their respective positions.

### ***Application Forms***



Application forms have been placed on SBP website and can be accessed by clicking the link [www.sbp.org.pk/about/micro/index.htm](http://www.sbp.org.pk/about/micro/index.htm) or obtained directly from Director Banking Supervision Department.

### ***Information/Documents to be submitted with the Application***

The sponsors in addition to the information required in above paragraphs, shall submit following information/documents with the application:

- The draft Memorandum and Articles of Association of the MFB and the proposed name
- Feasibility Study for setting up the MFB in the specified area i.e. the specific district, province or the whole country;
- The organization structure along with proposed job descriptions and detailed CVs of the Chief Executive and the Senior Management team;
- The microfinance model(s), which the proposed MFB would be implementing for extending MF Services, and
- Short term and long term business plans

### ***Application Processing Fee***

The applicant shall deposit a pay order or demand draft of Rs.500,000/- (Rupees five hundred thousand) favoring State Bank of Pakistan along with the application as processing fee. The fee so deposited shall be non-refundable.

### ***NOC for Incorporation with SECP***

The sponsors shall submit the application complete in all respect including the processing fee to the Director Banking Supervision Department State Bank of Pakistan Karachi for grant of license to operate as MFB. The State Bank shall process the application and if satisfied with the capacity of the sponsors and senior management team to manage and operate the MFB, the quality of the proposal (feasibility report and business plans etc) and contents of the draft memorandum and article of association of the proposed MFB, shall issue NOC to the sponsors for incorporation of the proposed bank as a public limited company. In case of weaknesses in the proposal, concerns on capacity of the sponsors and senior management team and or incomplete information, the sponsors will be given an opportunity to improve the proposal or take steps to address the concerns raised by SBP. NOC will be issued if proposal etc. is improved to the satisfaction of SBP; the application will be declined otherwise.

### ***Grant of License***



The sponsors granted NOC for incorporation of the proposed bank with SECP as public limited company, shall, after incorporation of the company, submit the incorporation certificate to SBP. The State Bank shall grant the license subject to receipt of clearance from security agencies and CBR etc.

### ***Commencement of Business***

The MFB shall commence operation within six months of the grant of license by the SBP. After grant of license the sponsors shall subscribe the committed capital and obtain certificate of commencement of business from SECP. The licensed MFB shall then apply to SBP for grant of licenses for opening branches/places of business under MFIs branch licensing policy.

### ***Compliance with Legal Framework & Prudential Regulations for MFBs***

The company granted license to operate as MFB shall comply with the provisions of Microfinance Institution Ordinance 2001, Rules/Prudential Regulations framed under it and SBP directives issued/to be issued from time to time. The Prudential Regulations for MFBs can be accessed by clicking the link [www.sbp.org.pk/about/micro/index.htm](http://www.sbp.org.pk/about/micro/index.htm) or obtained directly from Banking Supervision Department.

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