

THE KYRGYZ REPUBLIC LAW
On Micro-finance organizations in the Kyrgyz Republic

This Law outlines the status, regulates the activities of the micro-finance organizations and is purposed to create the legal and organizational prerequisites for micro-finance activities in the Kyrgyz Republic.

Chapter I. GENERAL PROVISIONS

Article 1. Definitions

1. A micro-finance organization is 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.

A micro-finance organization carries out its activity on the basis of license (certificate) from the National Bank of the Kyrgyz Republic (hereinafter – the National Bank). A micro-finance organization is not a bank and may carry out single bank transactions in compliance with requirements of this Law.

2. A **micro - finance company** is a specialized finance and credit institution established in the form of a joint stock company and providing micro-credits to certain categories of legal and physical entities from their own funds, as well as attracted funds including funds of donor organizations, local and international financial organizations, and other types of transactions provided in this Law including time deposits from physical and legal entities in compliance with this Law.
3. A micro-credit company is a specialized credit institution established as a legal entity in any organizational and legal form of a commercial organization that has obtained a National Bank certificate and issuing micro-credits to physical person and legal entities only from their own funds or funds of donor organizations, local or international financial organizations in compliance with this Law.
4. A micro-credit agency is a specialized credit institution established as a non-commercial organization, except cases provided in this Law, that has obtained a National Bank certificate and issuing micro-credits to physical person and legal entities only from their own funds or funds of donor organizations, local or international financial organizations in compliance with organization goals outlined in its Charter.

Micro-credit agencies cannot allocate profit among its founders and direct all their profit to achieve the goals outlined in their charter in compliance with legislation of Kyrgyz Republic.

5. **Affiliated person of a micro-finance organization** is any physical person (insider) or legal entity (except state bodies that control micro-finance organization activity within the terms of their on authorities) that has the right to determine directly or indirectly decisions or influence the decision making by micro-finance organization in particular due course of agreement effect (including oral agreement) or any other deal as well as any physical person (insider) or legal entity towards which this affiliated entity has the same right. An affiliated person of the micro-finance company is considered to be its executive officers, shareholder (participant) or any entity holding five and more percent of the voting shares.
6. Micro-credit is financial resources provided by micro-finance organization to physical persons or associations established by them, legal entities in accordance with the micro-finance organization Charter.

The amount of loan to be disbursed to one and the same entity may not exceed the limit established by the National Bank.

7. Micro-finance activities are activities of micro-finance organizations on delivering micro-credits in compliance to this Law.
8. Micro-credits are formalized through Credit Agreement, or Loan Agreement, in compliance with requirements of legislation, including cases of subsidiary responsibility of group of persons.
9. The activities of other finance and credit institutions including credit unions is regulated by the Kyrgyz Law “On Credit Unions” and other legal regulation of the Kyrgyz Republic.

Article 2. The goal of a micro-finance organization

The goal of micro-finance organizations activities is to provide accessible micro finance services to alleviate poverty, increase employment, assist in development of entrepreneurship and social mobilization of population in the Kyrgyz Republic.

Article 3. Name of a micro-finance organization

1. A micro-finance organization shall use only that name which is outlined in its charter of the micro-finance organization and depending on its type use in its name the words “micro-finance company”, “micro-credit company”, “micro-credit agency” and short names “MFC”, “MCC”, “MCA” respectively.
2. A micro-finance organization can not use a name different from that outlined in its charter in any its documents, announcements or advertisement materials.
3. A micro-finance organization does not have the right to use in its name or refer to words “National”, “State”, “Kyrgyz Republic”, “Kyrgyzstan”, in any language and in any combination.
4. The following words as “micro-finance company”, “micro-credit company”, “micro-credit agency” or abbreviations “MFC”, “MCC”, “MCA” or any other its combination can be used in a brand name to advertise the micro-finance organization that operate on the basis of a license or certificate within the framework of this Law.
5. The name and location of the micro-finance organization is changed after sending prior notice to the National Bank and confirming the submitting documents. The micro-finance organization shall also notify about the changes it through Mass Media within three days.

Article 4. Responsibilities of the Kyrgyz Republic and micro-finance organizations

1. Micro-finance organizations are not responsible for liabilities of Kyrgyz Republic and the Kyrgyz Republic is not responsible for liabilities of micro-finance organizations except for cases when parties voluntarily accept such liabilities.
2. Micro-finance organizations are not responsible for liabilities of the National Bank and the National bank is not responsible for liabilities of micro-finance organizations.

Article 5. Independence of micro-finance organizations in the Kyrgyz Republic

1. Micro-finance organizations are organize and operate independently within or authorities outlined in this Law, the Law “On banks and banking activity in the Kyrgyz Republic”, legal regulation from the National Bank and other laws of the Kyrgyz Republic.
2. Public administration bodies and their executive officers are prohibited to interfere in any form into decision making related to operation of micro-finance organizations, except for cases outlined by legislation of the Kyrgyz Republic.

3. Micro-finance organizations independently set interest rates, commission (processing) fees and service fees in accordance with agreement concluded with the client.

Article 6. Unions of micro-finance organizations

1. The micro-finance organizations may establish associations or other similar unions whose members may include micro-finance organizations, foreign citizens and legal entities or Kyrgyz physical person and legal entities to coordinate their activities, protect and represent their common interests, implement joint projects and other similar purposes.
2. Associations or other similar unions of micro-finance organizations shall meet the requirements of antimonopoly legislation. Micro-finance organizations are prohibited to use associations, other similar unions to set interest rates, commission fees or dues targeted to restrict competition or to monopolize the market.

Article 7. Branches and representative offices of micro-finance organizations

1. A micro-finance organization branch is a separate subdivision, but not a legal entity itself, with different from headquarter location and performing fully and/or partially transactions on the basis of bylaws approved by the micro-finance organization and operating authorities granted by the micro-finance organization.

The branch has a common authorize capital, balance sheet with micro-finance organization and name of micro-finance organization with only adding the word "Branch".

Branch managers are appointed and act on the basis of Power of Attorney issued to them by micro-finance organization.

2. A representative office of the micro-finance organization is a separate subdivision, but not a legal entity itself, that protects and represents interests of the micro-finance organization and concludes deals on behalf of micro-finance organization or other legal actions according to representative office bylaws approved by micro-finance organization.
3. Branch and/or representative office of the micro-finance organization opens after preliminary notification to the National Bank. Order of opening branches and representative offices of micro-finance organization is outlined in normative acts of the National Bank.
4. Branches and representative offices are not subject for registration in local governmental bodies except for registration of the branch and/or representative office in justice bodies.
5. Change of name, location, types of activity of a branch and/or representative office of micro-finance organization can be made after notification to the National Bank.
6. The National Bank has the right to require information and issue normative acts pertaining to the activity of branches and representative offices of micro-finance organizations.
7. The actions of branch and/or representative office of micro-finance organization are considered to be actions of micro-finance organization, the micro-finance organization that established it is fully liable for the actions of branch and/or representative office of the micro-finance organization.

Article 8. Deals conducted by micro-finance organizations

1. Besides main micro-credit activity, a micro-finance organization has the right to conclude other deals to ensure its activity in compliance with the legislation of the Kyrgyz Republic, in particular:
 - 1) Repossess and sell the pledged by mortgager property to fulfill liabilities before micro-finance organization;
 - 2) Provide consultations and information on micro-credit services;
 - 3) Open and maintain settlement (deposit) accounts with commercial banks;

- 4) Borrow funds from international donor organizations, banks and financial and credit institutions.
2. A micro-finance organization can procure, own, use, alienate property in compliance with restrictions outlined in this Law, in relevant legislation of the Kyrgyz Republic and in its charter documents, and conduct other deals related to micro-finance service provision required to ensure its activity in compliance with legislation of the Kyrgyz Republic.
3. A micro-credit, issued to clients by a micro-finance organization, may be secured by collateral, guarantee, various financial instruments or other means in compliance with legislation of the Kyrgyz Republic.

Article 9. Activity of micro-finance organizations

1. To carry out its activity, a micro-finance company is obliged to obtain a license from the National Bank for the right to carry out specific banking transactions in compliance with the requirements of this Law and normative acts of the National Bank.
2. To carry out its activity, a micro-credit company and/or micro-credit agency is obliged to obtain a certificate from the National Bank about registration of the micro-credit company and/or micro-credit agency. Certificate about registration is issued to micro-credit companies and micro-credit agencies in simplified order outlined in the normative acts of the National Bank.

Article 10. Reorganization and/or liquidation of micro-finance organizations

1. Micro-finance organization may be reorganized upon decision of the National Bank in compliance with the legislation of the Kyrgyz Republic.
2. 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.
3. In case of a micro-credit agency liquidation all property that remains after favoring creditors laws suits is targeted to achieve charter goals of non-commercial organization.
4. In case of default (bankruptcy) a micro-finance organization is liquidated as a bank in compliance with legislation on bankruptcy of the Kyrgyz Republic.

Article 11. Reserves of micro-finance organization

1. A micro-finance organization classifies its assets and credit portfolio, creates loan loss reserve in compliance with normative acts issued by National Bank.
2. Creation of Loan Loss Reserve, write off of debts and losses, as well as corrections to Loan Loss Reserve are carried out in accordance with normative acts of the National Bank
3. Expenditures for creating Loan Loss Reserve are considered to be expenses of a micro-finance organization that are deductible from taxable base in compliance with tax legislation of the Kyrgyz Republic.

Chapter 2. MICRO-FINANCE COMPANIES

Article 12. Organization and legal form of a micro-finance company

1. A micro-finance company is established as a joint stock company of open or close type and acts on the basis of its charter, in compliance with the requirements of this Law and other legal and normative acts of the Kyrgyz Republic.

2. All activity of micro-finance company is subject to restrictions outlined in this Law and normative acts issued by the National Bank in accordance with this Law.
3. All changes and amendments to charter and other establishment documents of micro-finance company shall be registered in the order outlined by legislation of the Kyrgyz Republic. Changes and amendments to charter and establishment documents shall be approved by the National Bank prior to their registration in justice bodies.
4. In case of changes and amendments to charter and/or establishment documents of micro-finance company pertaining to the size of charter capital, the micro-finance company shall notify the National Bank on outcomes of final registration of emission of securities in compliance with legislation on securities within one month from the date emission was declared to be held.

Article 13. Micro-finance company and its Founders

Founders and shareholders of micro-finance company may be physical and legal entities, residents or non-residents of the Kyrgyz Republic provided that:

- 1) Share of the legal entity (other than entity referred to in sub clause 2 of this article) may not when aggregated with the share of any other legal entity controlling, controlled by or under common control with it, exceed [20]% of voting shares of micro-finance company;
- 2) Any international finance organization that extends support to economies of developing countries; micro-finance company, bank or any other legal entity meeting criteria set forth in normative acts issued by the National Bank may own total 100% (or less) of voting shares of micro-finance company.

Article 14. Capital of micro-finance company

1. Fully paid charter capital shall form the basis of the capital of the micro-finance company. The capital includes only charter capital on which micro-finance company does not have liabilities to repay funds contributed by its founders, shareholders;
2. The charter capital of the micro-finance company may be formed only in the national currency of the Kyrgyz Republic using the funds of founders (shareholders). Use of fixed assets and intangible assets for formation of charter capital of micro-finance companies shall not be allowed.
3. Before obtaining a license the micro-finance company is obliged to place minimum charter capital to accumulation account opened in a commercial bank of the Kyrgyz Republic.
4. The National Bank determines economic norms for defining capital adequacy standard and minimum size of charter capital for newly established micro finance companies and capital structure for micro-finance company.
5. The size of charter capital for micro-finance company shall not fall below minimum requirements set forth in normative acts of the National Bank.

Article 15. Peculiarities of micro-finance company licensing

Micro-finance company that applied 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 this Law shall submit the documents set forth by the Article 14 of the Kyrgyz Republic Law “On Banks and Banking Activities in the Kyrgyz Republic”

Article 16. Transactions carried out by micro-finance company

1. Micro-finance company may carry out the following banking operations taking into account the limitations set by the National Bank, under condition that these operations are indicated in the license:
 - 1) Issue secured and non-secured micro-credits
 - 2) Accept time deposits from physical and legal entities on conditions of repayment with the purpose to accumulate the clients savings.

- 3) Buy and sell debt liabilities (factoring);
- 4) Carry out financial leasing transactions where micro-finance company acts as an intermediary between supplier or producer of the property financing the sale of supplier's or producer's property by buying and selling on condition of credit to the buyer.

2. Within the initial 2 years from the moment of start of its activity the micro-finance company can not obtain the right for carrying out transactions indicated in paragraph 2 of clause 1 of this article except for cases:

- 1) If organization carried out its activity before this law came into force and on legal basis accepted deposits, issued credits within 2 years before obtaining this license, and changes its organization and legal form for obtaining the license as a micro-finance company and on condition that the National Bank will be confirmed that it is the same entity that carried out the activity previously;
 - 2) When the entity established as a credit union in compliance with Law of the Kyrgyz Republic "On Credit unions" actively acts and accepts deposits on mutual basis and issues credits within two years from the moment this law comes into force and changes organizational and legal form with transfer to joint stock company with the purpose to obtain license as a micro-finance company and on condition that National Bank will be confirmed that it the same entity that carried out the activity previously;
 - 3) When the entity established as a micro-credit company or agency has been working for two years on the base of certificate issued by the National Bank and meets the qualification and other requirements of the National Bank in order to obtain the license for accepting time-fixed deposits;
3. Banks and other finance and credit institutions can not obtain a right to carry out transactions indicated in sub clause 2 of clause 1 of this article even if they meet the requirements of item 2 of this Article, if:
- 1) They are declared bankrupt and are the subjects for liquidation and/or reorganization;
 - 2) Available preventive measures and sanctions of the National Bank, as well as they made other violations of the National Bank normative documents;
 - 3) Available court decision prohibiting engagement in this type of activity.
 - 4) Do not meet the qualification criteria and other requirements of the National Bank in order to obtain a license for accepting time-fixed deposits.

4. Micro-finance company has the right to issue common shares and debt securities within the limits permitted by the National Bank and relevant legislation of the Kyrgyz Republic.

5. National Bank issues normative acts defining limitations for micro-finance company including:

- 1). On means of operating with deposits;
- 2). On utilization of deposits of physical entities for on-lending;
- 3) On the size of deposits
- 4) On compliance with obligatory reserve requirements
- 5) On amount of investments

Article 17. Placement of funds

1. Placement of funds of micro-finance company shall be carried out in accordance with internal credit policy of micro-finance company that is subject for approval by relevant management body for the purposes determined by this Law.
2. Micro-finance company shall not issue credit to third party for purchasing securities issued by micro-finance company itself or a security for such purposes.
3. Micro-finance company has no right to issue letters of credit and other kinds of guarantees.

Article 18. Resolution of conflict of interests

1. In order to avoid the conflict of interests, member of Board of Directors in micro-finance company shall:

1) act in the interests of micro-finance company, take efforts to protect interests of micro-finance company and make reasonable and sound decisions while performing his/her responsibilities and bear material responsibility for losses incurred by micro-finance company as a result of poor performance of responsibilities.

2) Cannot be simultaneously a member of Board of Directors or Board or employee of any other affiliated company of micro-finance company operating in Kyrgyz Republic.

3) Shall not simultaneously hold the position of executive officer or employee in any state body including local authorities bodies.

4) Shall not take part in voting on issues, or in any way influence voting that is of personal interest.

2. Board member of micro-finance company shall act in the interests of micro-finance company and not in his or her personal interests and take the best possible efforts to protect interests of micro-finance company and also make reasonable and sound decisions while performing his or her responsibilities and bear material responsibility for losses incurred by micro-finance institutions as a result of poor performance of responsibilities.

Article 19. Transactions with affiliated persons

1. Any transaction between the micro-finance company and any affiliated person is subject for approval by Board of Director of micro-finance company. National Bank shall adopt normative acts towards the requirements for transactions between micro-finance company and affiliated person.

2. Micro-finance company may participate in transactions (except for micro-crediting and financial leasing) with affiliated person on condition that a) the total amount of transactions towards any affiliated person shall not exceed the identified percentage ratio to capital and reserves of micro-finance company (as outlined in normative acts issued by National Bank) and b) the gross amount of all these transactions shall not exceed the identified percentage ratio to capital and reserves of micro-finance company (as outlined in normative acts issued by National Bank).

3. In any cases in which the transactions between the micro-finance company and affiliated person are involved, when Board of Directors refuses to vote or is unable to make a decision on this issue, the Board may by majority of votes make a decision to transfer this issue for consideration at the next General Assembly of shareholders or Annual meeting of shareholders.

4. Micro-finance company issues micro-credits and carries out other transactions in favor of affiliated persons of micro-finance company in compliance with requirements set forth in normative acts of the National Bank.

Article 20. Qualification of Board of Directors members and executive officers of micro-finance company

1. National Bank has the right to adopt normative acts setting out qualification requirements for the following positions in micro-finance company that attracts deposits: Board of Directors members, Board members, managers of large structural divisions and chief accountant.

2. Board of Directors members, Board members of micro-finance company that attracts deposits shall have relevant professional qualification and good reputation.

Article 21. Procedure for changes in composition of shareholders of micro-finance company

1. Any physical or legal entity that wishes to acquire the package of shares of micro-finance company that gives the right to control directly or indirectly or acts jointly with other persons or unions is obliged to submit the application in writing to National Bank thirty days prior to the date of acquisition of shares.

In this article acquisition applies to purchase, transfer, pledging or any other form of alienation or burdening of shares of micro-finance company.

In this article control implies to ability to control directly or indirectly elections of majority of members of the Board of Directors in micro-finance company and to influence management of micro-finance

organization in some other way. Control may be fulfilled through ownership of five or more percent of shares of any type issued by micro-finance company with the voting right or by influencing management decision making in some other way.

2. Applications for acquisition of shares in order indicated in clause 1 of this article shall be submitted by persons that become direct or indirect owners of control stock as a result of supplementary acquisition of shares of micro-finance organization.

3. Not later than thirty days from the date of application receipt and within sixty days for cases of acquisition of shares by non-resident, the National Bank notifies the applicant in writing of its decision (approval or denial). Denial shall be explained. In case if the National Bank did not inform of its decision within the indicated period, the deal of acquisition of shares of micro-finance company is considered to be permitted.

4. Within the terms of its supervisory functions the National Bank may request and obtain information on the financial condition and business reputation of shareholders of micro-finance company in case of acquisition of more than five percent of stock by them.

5. The National Bank may deny the application if:

- 1) Acquisition of stock may lead to monopoly;
- 2) Financial condition of acquiring parties may threaten stability of micro-finance company;
- 3) Competence, experience, qualification of proposed management do not meet the set forth requirements;
- 4) Acquiring parties did not submit complete information or submitted distorted or false information;

6. Order of submission and consideration of application is regulated by normative acts of the National Bank.

Article 22. Transparency of micro-finance company activity.

A micro-finance company at least once a quarter publishes in mass media balance reporting with explanations on this reporting and annually publishes financial statement confirmed by independent External Auditor.

Chapter 3. LICENSING OF ACTIVITY OF MICRO-FINANCE COMPANY

Article 23. Documents required for obtaining license

1. To obtain a license for carrying out transactions by a micro-finance company, the applicant shall submit two copies of the following documents to the National Bank:

- 1). Application for the license completed in compliance with the form prescribed by normative acts of the National Bank.
- 2). Notarized copies of establishment documents of the micro-finance company to be established;
- 3). General organizational chart of the micro-finance company;
- 4) Copy of certificate of state registration as a legal entity;
- 5) List of members of management bodies of micro-finance company and data confirming their qualification fitness determined by the National Bank;
- 6) Document confirming the payment of license issuance fee;
- 7) Document confirming crediting of funds as a charter capital of a micro-finance company to accumulation account in commercial bank.
- 8) Feasibility Study (business plan) for establishment of micro-finance company.

2. The National Bank has the right to determine additional information that the applicants shall submit for obtaining a license.

Article 24. Terms of consideration of license application

1. The National Bank shall issue license or deny license application within one month after receiving the application and all required documents for micro-finance companies.
2. Affirmative reply shall be a letter of consent to undergo state registration (re-registration) in justice bodies of the Kyrgyz Republic in form and order determined by National Bank and Ministry of Justice of the Kyrgyz Republic for finance and credit institutions licensed by the National Bank.
3. In the event of any change to any of the information submitted to the National Bank, the applicant shall immediately notify the National Bank and shall submit to the National Bank the documents with changes within 3 days from the moment the changes were made. The National Bank may extend the period of consideration for 10 working days. In case if National Bank considers that the change in information is essential, it may restart the period of consideration from the day of notification delivery on changes in initial information.
4. In case if the documents received by the National Bank do not comply with the requirements of the National Bank for obtaining the license, the calculation of consideration period shall start as of the date of receipt of satisfactory documents.
5. In case of denial in license issuance to micro-finance organizations or withdrawal of license application by founders of micro-finance organization, a copy of documents submitted for obtaining a license is not subject for return.

Article 25. Grounds for denial of license

1. The National Bank may deny issuance of license for any of the following reasons:
 - a. Non-compliance of submitted documents with requirements of this Law and requirements of the legislation of the Kyrgyz Republic;
 - b. Provision of false information in documents for obtaining license;
 - c. Failure to pay the license issuance fee;
 - d. Court decision in respect of the applicant forbidding him/her to carry out this type of activity;
 - e. Non-compliance with other provisions set out in normative acts issued by the National Bank pursuant to this Law.
 - f. Other reasons determined by this Law and legal acts of the Kyrgyz Republic.
2. The National Bank must provide the applicant with written notification setting forth the reasons based on which it has denied issuance of license.

Article 26. Change of information in documents after obtaining license

1. Prior approval of the National Bank is required for the following additions or changes in information submitted for obtaining license and establishment of micro-finance company:
 - 1) Any amendments in establishment documents of micro-finance company;
 - 2) Any changes in any other documents or information which was required to be included in the list of documents for obtaining license;
 - 3) Changes in the composition of management body of micro-finance company;
 - 4) Other changes specified in normative acts issued by the National Bank.
2. The National Bank issues its approval or denial to make the proposed amendments or changes within 15 business days after receiving notification on the proposed amendments and changes;
3. Any proposed change or amendment may be denied by the National Bank on the same basis as applied for denial of issuance of license.

Chapter 4. REGULATION OF ACTIVITY OF MICRO-FINANCE COMPANIES

Article 27. Regulatory and supervisory body

1. The National Bank regulates and supervises the activity of micro-finance companies with the purpose to perform functions and tasks delegated to the National Bank by Law “On the National Bank of the Kyrgyz Republic” and support sustainable financial system, protect consumers’ interests and ensure compliance of micro-finance companies with relevant legislation of the Kyrgyz Republic

2. The National Bank issues normative acts that regulate the activity of micro-finance companies in addition to provisions of this Law that also considers the issues of prudent regulation, including:

- 1) minimum size of charter capital;
- 2) structure and composition of capital;
- 3) classification of assets and creation of Loan Loss Reserve;
- 4) other economic norms (capital adequacy, maximum loan size per borrower, liquidity and etc.);
- 5) limitations and operating rules for deposit activities;
- 6) procedure of compliance with obligatory reserve requirements

3. Specific authorities of the National Bank related to regulation and supervision of micro-finance companies, including development of drafts normative acts may be delegated by the National Bank to an authorized person.

Article 28. Means of regulation applied by the National Bank

The National Bank has the right to apply any of the following measures towards micro-finance companies:

- 1) Determine financial standards including standards related to minimum size of initial charter capital, structure and characteristics of charter capital and reserves, capital adequacy ratios, liquidity, rules restricting types of activities with different persons and extent of such activities and other financial standards outlined in this Law or required from the viewpoint of the National Bank for the purpose of carrying out prudent activities by micro-finance companies;
- 2) Audit activities of micro-finance companies and its branches;
- 3) Give recommendations on improving the activity of micro-finance companies;
- 4) Give compulsory for implementation instructions on elimination of revealed violations and shortcomings in their activity that contradict to this Law or normative acts issued by the National Bank within the period defined by the National Bank;
- 5) Apply preventive measures and sanctions (including penalties) outlined by this Law, the Law “On banks and banking activity in the Kyrgyz Republic”, other legislative acts of the Kyrgyz Republic and normative acts of the National Bank;
- 6) Request or demand and obtain balance sheet, reporting and other documentation or information on activity or transactions carried out by micro-finance companies;
- 7) Suspend or withdraw license or temporarily suspend or forbid to fulfill transactions permitted by this law;
- 8) In case of default to take actions in its relation in compliance with Law of the Kyrgyz Republic “On bankruptcy (insolvency)”;
- 9) Take other actions allowed in compliance with normative acts issued by National Bank, in accordance with this Law or permitted in compliance with legislation of the Kyrgyz Republic.

Article 29. Audit of activity of micro-finance companies

1. The National Bank supervises the activity of micro-finance companies by auditing financial reporting and other information provided by micro-finance companies, and conducting on job inspections.

2. The National Bank has the right to delegate the authority of audit to professional independent auditors. Executive officers of micro-finance organization are obliged to assist the auditors appointed by the National Bank.

3. After presenting evidence of their appointment, the auditors have the right to:

- 1) Have access to any premises (head office, branch, representative office) of micro-finance companies on any business day during office hours or any other time during which the members of supervisory body, management bodies, administration, chiefs of subdivisions or persons in charge of accounting are actually staying in these premises;
 - 2) Have meetings with members of supervisory body and administration of micro-finance companies its employees during office hours;
 - 3) Research and make copies or take extracts from any documents or records (including computer records) and demand clarification on these documents or records from executive officers of micro-finance companies, any of its employees or other persons who are currently or were its main founders, shareholders, participants;
 - 4) Prepare instructions for write off bad debts or to create and maintain sufficient reserves or comply with other economic norms, or this Law, other legislative or normative acts of Kyrgyz Republic;
 - 5) Take other necessary measures related to audit of activity of micro-finance companies.
4. Authorities of the National Bank to audit micro-finance companies (including all authorities related to any of such audits) are valid in respect of any company that has the associated interests (insiders and affiliated companies) with micro-finance organization and their subsidiary companies

In order to conduct audit of the micro-finance companies, the National Bank has the right to request consolidated balance sheet that shows general financial condition of micro-finance organization and all of its subsidiary companies. In case of violation of this Law and/or banking legislation, the National Bank may apply to micro-finance companies sanctions and measures outlined by this Law and other normative and legal acts of Kyrgyz Republic.

5. Auditing employees from National Bank (audit company) shall be prohibited to divulge or transfer information obtained in course of audit to third parties, except for cases outlined by legislation of the Kyrgyz Republic.
6. Persons conducting audit are liable for unlawful divulge or transfer of information obtained in course of audit to third parties within limits outlined by legislation of Kyrgyz Republic.

Article 30. Suspension and withdrawal of license

1. The National Bank has the right to make decision on suspension or restriction of transactions of a micro-finance company, or suspension or withdrawal of its license (certificate) by complying to terms on license suspension and its withdrawal outlined in legislation in case of:
 - 1) Violation of this Law, normative acts issued by the National Bank under this Law and other legislative and normative acts of Kyrgyz Republic;
 - 2) Non compliance of micro-finance company with recommendations, warnings, instructions and other sanctions of the National Bank;
 - 3) Violation of economic and other norms determined by the National Bank;
 - 4) Threat of default or solvency of micro-finance company;
 - 5) Non submission of information that should be submitted to the National Bank or provision of false, incomplete information;
 - 6) In other cases determined by legislation of the Kyrgyz Republic.
2. Decision on suspension or restriction of certain operations of micro-finance companies or suspension or withdrawal of its license made by the National Bank shall contain description of specific facts of violations based on which the decision was made. In case of suspension or restriction of transactions or suspension of license decision shall also contain the following specific measures to be applied but not restricted to the following:
 - 1) Restriction to pay dividends by micro-finance company or any of its subsidiary companies located in the Kyrgyz Republic;
 - 2) Restriction for growth of micro-finance organization through prohibition to establish branches, representative offices, subsidiary or other companies;

- 3) Requirement to sell specified assets by micro-finance company and utilize the sale proceeds in a certain way;
- 4) Requirement to terminate or make corrections by micro-finance company to certain contracts or agreements concluded by micro-finance company in parts where these contracts/agreements were concluded with violation of legislation, or to avoid conclusion of such contracts in the future;
- 5) Requirement to micro-finance company to suspend certain types or all activities permitted by its license (certificate);
- 6) Requirement to micro-finance companies to take other measures to eliminate violations;
- 7) Application of bankruptcy procedures in compliance with the Law “On banks and banking activity in the Kyrgyz Republic” and the Law “On bankruptcy”.

3. From the moment of withdrawal of license, the National Bank excludes the micro-finance company from the register for micro-finance companies. In this case, the micro-finance company is subject for liquidation.

4. If the situation causing suspension or restriction of transactions carried out by micro-finance company is corrected, the National Bank addresses a written notification to the micro-finance company informing that suspension or restriction on transactions was uplifted or suspension of license was canceled.

Article 31. Information and documents

- 1) The National Bank has the right to request and obtain any information which a micro-finance company or any of its subsidiary companies has, including information on customers of micro-finance company and sources of their funding.
- 2) Information acquired by the National Bank while fulfilling its responsibilities may not be given to a third party unless it is outlined by legislation.

Chapter 5.

MICRO-CREDIT COMPANIES AND MICRO-CREDIT AGENCIES

Article 32. Founders and establishment documents of micro-credit company and micro-credit agency

1. Founders of micro-credit company and micro-credit agency may be legal or physical entities irrelevant of place of registration of legal entities and residence or citizenship of physical entities.
2. Micro-credit company may be established in any organization and legal form outlined by legislation for commercial organizations.
3. Micro -credit agency may be established in any organization and legal form outlined by legislation of the Kyrgyz Republic for non - commercial organizations, except political parties, professional unions and religious organizations.
4. Micro-credit company and/or micro-credit agency shall have a charter that contains main issues required in accordance with civil legislation and considering peculiarities outlined in this Law and other legislation of the Kyrgyz Republic

Article 33. Transactions carried out by micro-credit company and micro-credit agency.

1. A micro-credit company issues micro-credits to physical and legal entities only from its own or funds of donor organizations, local or international finance organizations on terms negotiated with the borrower upon availability of certificate from National Bank.

2. Micro-credit company may in addition carry out the following banking transactions, upon condition that these transactions are outlined in license obtained in accordance with order for licensing micro-finance companies by National Bank defined by this Law:

- 1) Purchase and sell debt liabilities (factoring);
- 2) Carry out financial leasing transactions where the credit company acts as an intermediary between the supplier or producer of property by funding sale of supplier's or producer's property through purchasing it from him and selling it on terms of credit to the buyer.

3. Micro-credit agency disburses loans (secured and non-secured micro-credits) from its own funds or funds of donor organizations, local or international finance organizations on conditions negotiated with the borrower in compliance with goals of a non-commercial organization outlined in the charter, defined by the parties and donors of micro-credit agency, as well as may carry out transactions of financial leasing where micro-credit or agency acts as a media between supplier or issuer of property, funding sales of property of supplier or issuer through buying from him and selling to buyer under the conditions of credit and on the base of NBKR license.

4. Micro-credit company or micro-credit agency having being licensed by the National Bank for carrying out banking transactions mentioned in sub clause 2 of this Article should carry out its activities in accordance with requirements and rules set out by legislation and the National Bank for this kind of activities.

The National Bank has a right to apply the regulative measures mentioned in Chapter 4 of this Law to the micro-credit company or agency carrying out the activities mentioned in item 2 of this Article.

Article 34. Capital of a micro-credit company

- 1) Fully paid charter capital forms the base of a micro-credit company capital. The capital includes only charter capital on which the micro-credit company is free from liabilities to repay funds contributed by its founders, shareholders, participants.
- 2) Charter capital of a micro-credit company is formed only in the national currency of the Kyrgyz Republic using the funds of founders, shareholders, participants. Use of fixed assets and intangible assets for formation of charter capital of micro-credit company shall not be allowed.
- 3) Prior to obtaining a certificate the micro-credit company is obliged to place minimum charter capital to accumulation (deposit) account opened in a commercial bank of the Kyrgyz Republic.
- 4) The National Bank determines minimum size of charter capital for newly established micro-credit companies.

Article 35. Peculiarities of activity of micro-credit companies and micro-credit agencies

1. Micro-credit agencies carry out their activity in compliance with legislation of the Kyrgyz Republic for non-commercial organizations considering specifics of this Law.

2. In order to start its activity and/or agent functions of donors, micro-credit company and/or micro-credit agency is obliged to obtain a certificate from the National Bank in accordance with requirements of normative acts of the National Bank.

3. To obtain a certificate on registration of a micro-credit company and/or micro-credit agency, the applicant submits two copies of the following documents:

- 1) Application for a certificate completed in compliance with the form prescribed by normative acts of the National Bank;
- 2) Notarized copies of establishment documents;
- 3) A copy of state registration certificate as a legal entity;
- 4) List of management body members in a micro-credit company and/or micro-credit agency;
- 5) Document confirming crediting of funds as a charter capital of a micro-credit company to accumulation account in commercial bank (except for a micro-credit agency).

4. The National Bank shall issue certificate about registration or deny certificate application within one month after receiving the application and all required documents for registration.

5. If the documents received by the National Bank do not comply with requirements of the National Bank for obtaining certificate, calculation of consideration period for application and required documents shall start from the time of delivery of satisfactory documents.

6. In case of denial in issuance of certificate or withdrawal of certificate application, one copy of submitted documents is not subject for return.

7. In the event of any change to any of the information submitted to the National Bank, the applicant shall notify the National Bank and shall submit to the National Bank the documents with changes within 10 days from the moment the changes were made.

8. Order of issuance, denial of issuance and withdrawal of certificate from micro-credit company and micro-credit agency is outlined in normative acts of the National Bank.

9. The National Bank or authorized by National Bank body (person) has a right to revise, require and receive any information related to the activities of micro-credit companies and micro-credit agencies.

10. The National Bank or authorized by National Bank body (person) has a right to recall the certificate on registration of micro-credit company or micro-credit agency in cases mentioned in item 1 of Article 30 of this Law.

Chapter 6. CONCLUSIVE PROVISIONS

Article 36. Prohibition of false advertising

1. Micro-finance organizations are prohibited to provide false or confusing advertising of their activity.
2. The National Bank has the right to request any micro-finance organization to change or cancel any advertisement or published information about the activity of micro-finance organization or its name within the period determined by the National Bank, if the National Bank finds the advertisement or information to be delivered in wrong or confusing manner by micro-finance organization.
3. In case of non compliance with requirements of the National Bank within the period determined by the National Bank as provided in clause 2 of this article, the National Bank has the right to publish at the expense of micro-finance organization a statement informing that the announcement or information given by micro-finance organization is incorrect or confuses the clients and public. In this case the National Bank has the right to request reimbursement of such expenses from micro finance organization as they rose in form of debt to be repaid to it by the micro-finance organization.
4. Other liabilities for intentional publication of false or misleading information of the micro-finance organization must be approved in accordance with Law of the Kyrgyz Republic.

Article 37. Audit of micro-finance company

1. Through its internal audit department a micro-finance organization conducts any internal audit with the purpose to confirm authenticity of accounts and appraise adequacy and effectiveness of its internal control system in compliance with legislation and normative acts issued by the Kyrgyz Republic
2. Micro-finance organization shall conduct annual independent audit attracting independent auditors. A micro-finance organization is annually obliged to provide the National Bank with one duplicate or copy of Full Report of External Auditor without changes (report of management, financial statements) within 30 days after receiving the report from External Auditor of the micro finance organization
3. The National Bank issues normative acts that set forth minimum criteria for independent annual audit.

Article 38. Accounting and reporting in micro-finance organization

1. A financial year in micro-finance organization begins on January 01 and ends on December 31. As for the first financial year, if state registration of the micro-finance organization took place after January 01, the financial year shall begin on the date of state registration and end on December 31 of the same year.

2. Specifics, volume, list of forms and report submission deadlines for micro-finance organizations shall be determined in normative acts issued by the National Bank.
3. The micro-finance organization is liable for authenticity and completeness of submitted information and reports in compliance with the legislation of the Kyrgyz Republic.
4. The structure and deadlines for submission of annual report by micro-finance organization are determined by normative acts of the National Bank.

Article 39. Drawing this Law into force

1. This Law comes into force from the moment of its publication.
2. Acting micro-finance organizations are obliged to comply their activity with this Law within 6 months from the moment this Law comes into force.

President of the Kyrgyz Republic Askar Akaev

Approved by Legislative Assembly
of the Parliament of the Kyrgyz Republic

June 11, 2002

Approved by People's Representative's Chamber
of the Parliament of the Kyrgyz Republic

July 3, 2002