



Da Afghanistan Bank

Non-Banking Financial Institutions Supervision Directorate General

Microfinance Sector Regulation



1445 HQ

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6- Microfinance category

- **First category:** includes sums of 5,000 to 500,000 Afghani
- **Second category:** includes sums of 500,001 to 1,000,000 Afghani

7- First Category Micro Enterprises (Business): These Professions, Activities and operators have the following specifications.

- Not obliged to obtain business license from Ministries of Commerce & Industries and Economy
- They may have license or other permitted certifications from Municipality.
- No. of employees shall range from 1 to 10 individuals.
- The activities/operations can be mobile (they may not have a specific place for business)
- Not obliged to have financial statement.

8- Second Category Micro Enterprises (Business): Those Professions, Activities and operators have the following specifications.

- No. of employees shall range from 1 to 20 individuals.
- Shall obtain business license from Ministry of commerce and industries, Municipality or other relevant organizations;
- Shall have a specific business address.

9- Beneficiary: refers to the legal or natural person who avails Islamic financial service of a MFI and is obliged to repay the financed amount along with profits as per agreed terms and condition with respective MFI.

10- Relevant Beneficiaries: Refers to two or more persons (natural or legal or both) who directly or indirectly affiliate with each other in the way that:

- Financial stability of one affect that of other.
- Similar purposes affect the financial stability of some or all of them.

11- Support organizations: Refer to national or international institution(s) or other entities that provides direct or indirect financial or other assistance for the purpose of supporting microfinance activities.

12- Aid facilitating Organizations: any governmental or non-governmental institution including corporate that acts as an intermediary between microfinance institutions and support organization or entity.

13- Microfinance supporters: consist of those individual(s) or national & international organization(s), Governmental or Non-governmental institutions or corporate or association that provides required financial or other support to microfinance institutions based on specific terms/conditions.

14- Corporate Governance: refers to conventions, actions, procedures, rules and regulations that ensure an accountable, transparent, responsive and sustainable operation of the institutions engaged in microfinance and related activities. It also includes structure and functioning of Board of Supervisor (BoS), Board of Management (BoM), sharia advisor and audit committee in MFIs.

15- Guarantee/Collateral: Any type of movable or non-movable items/property that borrowers provide to MFIs to recover loans, in case the borrowers stop repayments.

16- Movable item/Property: Refers to item/property that can be transferred without breaking down, changing in nature or altering ownership this includes tangible goods and intangible items such as property documents, deeds, copyright, etc.



- 17- **Immovable item/Property:** Refers to item/property that cannot be transferred without change in nature and shape
- 18- **Mortgage of movable property:** Means submitting the movable property as a guarantee/collateral by the borrower, with the understanding that MFI has the receipt and possession of the property.
- 19- **Mortgage of immovable property:** Means submitting the immovable property as a guarantee/collateral by the borrower, with the understanding that borrower has the possession of the property and lender can take its possession and sell in case of default to recover outstanding amount as per legal procedures.
- 20- **Shariah deed:** is a document that contains details of immovable property,, buyer and seller specifications and shows a person's ownership of that property. It is registered in the relevant government offices and courts.
- 21- **Customary/unofficial:** Deed is a document that contains the details of immovable property along with buyer and seller specifications. It is used at the local/regional level to demonstrate ownership of property and is not registered in the government office.
- 22- **Bai-Jaizi:** Temporarily transfers the ownership right of collateral to MFI through a legal process until the settlement of the credit. The MFI can sell the collateral only through due judicial process in case the borrower defaults.
- 23- **Non-performing Asset:** Refers an asset classified as substandard, doubtful and loss.
- 24- **Repossessed asset:** The asset or collateral that the MFI takes possession of through a legal process in case of borrower's default/bankruptcy.
- 25- **Past-Due Loans:** A loan that has not been repaid as per the agreed repayment term in the loan contract.
- 26- **Reserve for Losses:** An extra asset that is projected to absorb estimated losses in the MFI's portfolio or account receivables.
- 27- **Re-negotiated Loan:** Refers to a loan that has been modified to extend or postpone the original scheduled installment payments, or substantially changes the original terms and conditions of the loan. This modification is designed in a manner that does not affect the outstanding amount due.
- 28- **Person:** Can be a natural or legal person.
- 29- **Interest/Profit:** any income obtained through Islamic financial services, which means interest or benefit.
- 30- **General Assembly:** Refers to collection of all persons who established the MFI and have ownership and authority of MFI.
- 31- **Financial institution:** Encompasses financial institutions, companies, and organizations that have or are receiving operating licenses from the central bank (Da Afghanistan Bank) according to the Afghanistan Bank Law.
- 32- **Close Relatives:** include father, mother, sister, brother, son, daughter, husband and wife.
- 33- **Key Positions:** includes members of the supervisory board, members of the executive board, directorates and general managers.

Chapter Two: Eco-system for the microfinance sector

Article (5): Creation, maintenance and supervision of a responsive, accountable, transparent and sustainable eco-system for the microfinance sector

- (1) The eco-system will primarily consist of the following:



- 1- A culture where every borrower is obliged to return full loan amount along with profit as per agreed terms and conditions with MFI.
 - 2- Islamic financial services to be mandatory in the microfinance sector.
 - 3- A network of microfinance institutions at the national, regional and provincial levels to provide microfinance services across the country at reasonable and affordable terms. The 'reasonable and affordable terms' will be defined by the DAB by an official order from time-to-time as per prevailing conditions in the microfinance sector.
 - 4- Support institutions which assist microfinance institutions, beneficiaries and other relevant stakeholders in funding, training and capacity building, identification and exploitation of remunerative economic opportunities, credit guarantees, information management and monitoring, and any other activity relevant to microfinance.
 - 5- Funders who provide funds to microfinance institutions as a grant or loan or on other commercial terms.
- (2) Da Afghanistan Bank will lead and facilitate development of this eco-system for microfinance sector and take necessary measures, including creation of new institutions or aligning the activities of the existing institutions in the sector, as per overall objective of this regulation.
- (3) DAB will facilitate creation of a suitable institutional framework as part of the eco-system for microfinance, For this purpose, the DAB Can:
- 1- Monitor flow of funds, both internal and external, to and within the microfinance sector, and create necessary mechanisms for this purpose.
 - 2- create a dedicated fund for providing credit guarantee to the microfinance institutions on the loans given to beneficiaries to build confidence in microfinance sector and create necessary mechanisms for this purpose.
 - 3- Facilitate, support and, if needed, create necessary mechanisms for awareness generation on benefits of microfinance.
 - 4- Coordinate with different ministries and other government and non-government stakeholders to identify and exploit remunerative economic opportunities for the benefit of the microfinance beneficiaries especially where large number of poor can be accommodated in certain activities as supply chains of corporates.

Chapter three: Licensing of Microfinance Institutions

Article (6) Applying for license

- (1) According to the provisions of this regulation, anyone planning to provide microfinance services is obliged to apply to DaAfghanistan Bank for obtaining license before commencing operation.
- (2) DAB will prescribe forms and guidelines to apply for the license for microfinance activities. The form can be obtained from Da Afghanistan Bank's central or provincial offices or website.
- (3) The applicant is obliged to carefully read terms and condition of microfinance institutions license process, fill the prescribed application form as required, sign the commitment and submit completed application as directed.
- (4) Application completed in all aspects and supported by all documents will be processed by DAB within 60 days from the date of submission of completed application. If there is any deficiency



in filling application or supporting documents, DAB will inform the applicant in writing who will have to meet requirements of DAB within one week.

- (5) The applicant shall submit a comprehensive business plan of the organization including complete details of shareholding pattern, paid up capital and its sources, funds available for microfinance operations, how and where funds will be deployed, supplementary support to be given to beneficiaries in terms of capacity building, training etc., partner organizations, expected earning, how risk will be managed, and sustainability and expansion plans. The business plan should include long-term business goals and be supported by comprehensive marketing, operational, technical and financial strategies. The minimum period covered by the business plan is 3 years. In addition, the articles of association, organizational structure, biography of the supervisory board and executive officers and other key positions should also be submitted.
- (6) The MFI license applicant shall be registered as a micro financial institute with the Ministry of Industry and Commerce of Afghanistan (Afghanistan Central Registry & Intellectual Property).

Article (7) Window for microfinance by commercial banks

- (1) Commercial banks planning to operate microfinance services, shall establish a separate unit (Window) and are obliged to obtain NOC from Da Afghanistan bank for that purpose. They must provide all necessary data and information as requested by Islamic banking directorate.
- (2) Commercial bank(s) shall act as per this regulation for their microfinance window's activities.

Article (8) Types of microfinance institutions

- (1) To provide access to microfinance services at reasonable terms and conditions across the country, DAB will issue licenses to three types of microfinance institutions to work at provincial, regional and national levels respectively. Each type will operate only in their designated area.
- (2) A National MFI should be operating in at least majority of provinces of three zones/regions and a regional MFI should provide microfinance services in all provinces of respective region/zone. DAB could apply further requirements in this regard through circular(s).

The existing or already active MFIs shall obtain license under one of three categories as per provisions of this regulation

Article (9): Capital requirements of microfinance institutions

- (1) Considering the types of licenses, the Microfinance institutions are obliged to have at least the following paid up capital:
 - 1- Provincial Microfinance Institutions : 3.5 millions Afghani.
 - 2- Regional Microfinance Institutions: 10 million Afghani.
 - 3- National Microfinance Institutions : 25 millions Afghani.
- (2) Banks that operate in the microfinance activates are exempted from complying with paragraph of this (1) article, but banks shall allocate the required capital for the purpose of financing the microfinance sector.
- (3) According to this article, Microfinance institutions shall submit the required documents related to capital as stipulated by Da Afghanistan Bank.



Article (10) Fees

- (1) Da Afghanistan Bank may impose fees for the processing and issuance of business license for microfinance services.
- (2) The applicable fees are as follows:
 - 1- MFI license application process fee: AFN 50,000 (Fifty thousand Afghanis)
 - 2- Renewal or duplicate license issuance fees: AFN 25,000 (Twenty-five thousand Afghanis)
 - 3- Ownership change/transfer fee: AFN 50,000 (Fifty thousand Afghanis)
 - 4- Business abandoning or commercial name change application processing fee: AFN 25,000 (Twenty-five thousand Afghanis)
 - 5- MFI assessment/supervision fee (payable after receiving the final supervisory report): AFN 50,000 (Fifty thousand Afghanis)
- (3) The fees mentioned in paragraph 2 of this article are non-refundable.
- (4) The MFI license is issued for a period of three years and will need to be renewed thereafter.
- (5) The fees listed in Article (9) can be amended as necessary, and other fees may also be specified through official notice by Da Afghanistan Bank.
- (6) No Objection Certificate (NOC) fees for Banks can be determined by Islamic Banking directorate through official circular or procedures to Banks.

Article (11) Policies

The MFI license applicant must submit following policies, in case the banks operate in microfinance activities their entire policies shall consist of Management style, controls, and risk assessment of microloans

- 1- Funding Policy
- 2- Guarantee/Collateral policy
- 3- Risk Management policy
- 4- Operation Policy
- 5- AML/CFT policy
- 6- Consumer protection policy
- 7- HR policy
- 8- Internal Audit policy
- 9- Code of Ethics Guideline
- 10- Accounting and Finance Policy
- 11- Dispute Resolution Policy
- 12- IT and other necessary policies

Article (12) License to conduct microfinance activities for Foreigners.

Foreign institutions/companies can apply to DAB for license to provide microfinance services in Afghanistan and would be subject to this regulation. Foreign applicants are required to complete the following conditions and documents in addition to the documents listed in articles (6) of this regulation:

- 1- The applicant institution is required to be registered with the Ministry of Industry and Commerce of Afghanistan, (Afghanistan Central Registry & Intellectual Property) of the relevant office.



- 2- Must submit board resolution of parent organization approving establishment of a microfinance institution in Afghanistan.
- 3- Other information, conditions, and documents can be requested as required by Da Afghanistan Bank.

Article (13) Transfer of Ownership/Privilege of License

- (1) Without prior approval of DAB, the licensee can not share or transfer ownership of license to another party.
- (2) The licensee who wants to transfer ownership of their MFI license shall submit an application to NBFISD of DAB or DAB Branches in the provinces.
- (3) Owners, shareholders or their authorized representative of both transferring and receiving parties shall submit following documents and information to NBFISD of DAB or DAB Branches in the provinces in order to process the application:
 - 1- Statement regarding the purpose and aim of ownership transfer.
 - 2- Amount being charged by licensee to transfer ownership of license and sources of funds of buyer.
 - 3- Approval of amended Article of Association
 - 4- Tax clearance form.
 - 5- Crime clearance certificate.
 - 6- Statements on the current financial health of the organization
 - 7- Original activity license, and other documents and information as per DAB requirements.
- (4) The applicant shall publish notice of proposed change in ownership of MFI license in a local media with one copy to DAB soliciting any objections to change within one month. The applicant will submit objections received to DAB for consideration.
- (5) DAB would approve application for ownership change subject to the buyer fulfilling all terms and conditions as per this Regulation.

Article (14): Abandoning Business/institution

- (1) If an MFI owners/shareholder or their authorized representative intend to abandon their business, they must apply through specific forms for this purpose to be obtained from the licensing section of NBFISD in Kabul or DAB’s provincial / regional offices.
- (2) Befor processing the abandoning documents by DAB the concerned persons shall publish a notice to this effect in well-circulated local and national newspaper and media and seek any objections and submit same to DAB for consideration within one month.
- (3) The following documents and information must be provided along with the application by the owners/shareholders or their authorized representatives:
 - 1- Reasons for abandment of the business;
 - 2- Complete exit plan including, but not limited to:
 - How existing portfolio of concerned MFI will be handled.
 - What will happen to outstanding loans, liabilities and assets of MFI.
 - Details of Customer settlements.
 - 3- The license in original;
 - 4- A certificate of tax clearance;
 - 5- Criminal and financial background clearance;



- 6- Submitting all relevant customers data, information and transactions records;
- 7- Any additional documents or information requested by DAB.
- (4) The applicant may cancel the application for abandonment, before confirmed in writing by DAB.
- (5) In the event of a bank deciding to cancel the Microfinance NOC, the bank must submit an abandonment application, and all provisions of this regulation will be applicable.

Article (15) Suspension of License

- (1) Da Afghanistan Bank (DAB) may suspend the license of a Microfinance Institution (MFIs) under the following conditions:
 - 1- Upon request for suspension by the shareholders or owner of the MFI.
 - 2- Due to repeated violations of laws and regulations.
 - 3- Based on any other conditions deemed necessary by DAB.
- (2) In the event of a suspension by DAB, the owners must address the issues within a specified period to resolve the suspension; otherwise, the license will be annulled. If the case is undergoing judicial proceedings, the owner must take measures to resolve the suspension within three months following the final decision of the competent authority; failing to do so will result in annulment of the license.
- (3) If the suspension request is initiated by the MFI, the applicant must submit a written application to the licensing section of the Non-Bank Financial Institutions Supervision Department (NBFISD) of DAB in Kabul or the provinces. The license will be suspended for a maximum of one year and a minimum of three months.
- (4) The MFI is prohibited from operating during the suspension of its license.
- (5) If the suspension is enacted as per the provisions of paragraph (3) of this article, the license owner is required to:
 - 1- Submit a written application to request the cancellation of the suspension before the predetermined time expires.
 - 2- Notify DAB of any changes in the recorded information
- (6) If the owner does not refer to DAB after completion the determined time, DAB will notify the owner in written for addressal of issue. If there is no response after the issuance of the notification, the license will be cancelled after predetermined time.
- (7) If the suspension application is submitted by the MFI, the conditions of paragraph (3) of Article 13 of this regulation will apply. MFI will submit a plan to ensure no negative effect of suspension is to borne by microfinance beneficiaries, partners or any other stakeholders in concerned MFI.
- (8) DAB may take necessary measures to ensure that beneficiaries or microfinance services in areas covered by MFI under suspension are affected. DAB may ensure about the suspension of operations, if needed.

Article (16) Annulment of License

- (1) Da Afghanistan Bank (DAB) may annul or cancel the licenses of Microfinance Institutions (MFIs) under the following conditions:
 - 1- If the owner/shareholder or officials have provided false, misleading, or illegal information during the supervision process.
 - 2- In the event of Microfinance owner 's bankruptcy.



- 3- If the microfinance institution, after suspension, fails to take necessary actions to revoke suspension or to submit the monthly report within the specified period.
- (2) In the event of license annulment, the owner/shareholder must immediately cease all activities and submit the original license to Da Afghanistan Bank by the specified deadline.
- (3) In case of MFI license annulment, the provision of paragraph (3) article 14 of this regulation shall be applicable
- (4) The measures/actions adopted according to this regulation shall not prevent the fulfillment of other criminal liabilities and, civil or commercial obligations of the shareholders.
- (5) All the contracts that the micro finance institution might have entered into before the cancellation of the license they will be obligated to adhere to all those terms and conditions.

Article (17) Accounts Clearness/ settlements after The Annulment of License

- (1) In the event of an MFI license annulment, Da Afghanistan Bank is authorized to appoint or hire a specific committee for the liquidation and settlement of of microfinance institution’s accounts.
- (2) The liquidity remaining in the microfinance institution will be retained by Da Afghanistan Bank following the clearing and settlement of the accounts.
- (3) In coordination with the Ministry of Finance, Da Afghanistan Bank will allocate the funds from the accounts to other microfinance institutions with aim to continue microfinance services.

Article (18) Losing or Destruction of License

- (1) In the event of losing MFI license, the MFI officials are required to notify Da Afghanistan Bank (DAB) within 30 days after the loss and publish the issue in widely circulated publication and post a notification in the markets and area of operations.
- (2) If the license is not recovered within 20 days following the public notice, the MFI must apply for a duplicate license by submitting the following documents to the licensing section of the Non-Bank Financial Institutions Supervision Department (NBFISD) of DAB or the DAB branches in the provinces:

- 1- A document or copy of lost notification.
 - 2- Payment for duplicate license fee.
 - 3- Any other documents deemed necessary by licensing section.
- (3) If the lost license is found after issuance of duplicate, the MFI officials must submit the duplicate to the licensing section of NBFISD of DAB in center or provincial Branches with 10 working days.

Chapter Four: Organization structure and Operation of Microfinance Institutions

Article (19) Corporate Governance

- (1) All microfinance institutions and support organization should follow principles of good corporate governance and inculcate accountability, transparency and sustainability in their operations. In this regard, they will develop appropriate systems and procedure and follow instructions given by DAB from time to time.
- (2) Microfinance institutions shall comply with the conditions of this regulation within their organizational structure.



- (3) As part of its Corporate Governance, an MFI's organizational structure shall include all necessary safety, soundness, and security features of the MFI functions, as well as measures to ensure a consumer protection.
- (4) MFIs are required to introduce the members of the Board of Supervisor (BoS), Board of Management (BoM), and Compliance officer by submitting the necessary documents to the Non-Bank Financial Institutions Supervision Department (NBFISD). Other employees must be introduced as required by DAB.
- (5) **The General Assembly of Shareholders** shall have the following duties and authorities:
1. Adopt the Articles of Association (AoA) of the MFI.
 2. Appoint and dismiss members of the Board of Supervisors and determine their remuneration.
 3. Approve increases in the authorized capital of the MFI.
 4. Approve the annual reports and financial statements of the MFI, based on the recommendation of the Board of Supervisors.
 5. Decide on the sale, merger, annulment, and closure of the MFI.
 6. Establish or annul an MFI and its agents.
 7. Ensure that the balance sheet and the previous year's financial statement are audited externally. The general assembly meeting shall be held annually, no later than three months after the end of that financial year.
- (6) **Board of Supervisors' Structure**
- 1- The Board of Supervisors (BOS) shall define appropriate governance structures and practices for its own work, implement such as practices and review them regularly to ensure effectiveness.
 - 2- The Board of Supervisors (BOS) shall organize itself in terms of leadership, size and the use of committees, the minimum number of BoS shall be three and maximum shall be nine. In any case, the number of members shall always be odd.
- (7) **Board of Supervisors' Appointment**
- 1- The Board of Supervisor (BoS) members shall be appointed by general assembly of shareholders for a term of four years and may be reappointed for subsequent terms.
 - 2- Majority of BOS members shall not be from shareholder (s) or staff of the MFI.
 - 3- Board of Supervisors shall elect one of its members as the chairman.
 - 4- If a seat of Board of Supervisors falls vacant, the remaining members should fill the vacant position by designating a temporary member until the next General Assembly of Shareholders.
 - 5- At most one-third members of MFI's Board of Supervisor (BoS) may be appointed from the parent company organizational structure.
 - 6- The BoS member shall have following eligibility criteria
 - at least 5-year relevant experience.
 - at least a bachelor's degree in finance, business administration, Economic, law, IT or other relevant fields
 - at least one member of Board of Supervisors (BoS) shall have the educational background of Shariah or Islamic finance.
- (8) **Board of Supervisors duties and Responsibilities**
- 1- Convene and set the agenda for each meeting of the General Assembly of Shareholders
 - 2- Approve the organizational structure MFI;
 - 3- Appoint, dismiss and determine the compensation of the members of Board of Management and other staff.



- 4- Oversee the performance of the MFI Board of Management and other independent departments and provide necessary guidance and recommendations.
- 5- Approve the MFI's business strategy and annual budget;
- 6- Approve policies governing operational performance, including the MFI's risk management policy, conflict of interest procedures, and provide guidance to the Board of Management for policy implementation.
- 7- Ensure the establishment and functionality of internal controls and risk management and adherence to laws and regulations, and ensure adequacy of such measures within the MFI;
- 8- Ensure the integrity of the MFI's financial reporting, including financial reporting to DAB;
- 9- Ensure that an appropriate Internal Audit function is established;
- 10- Make recommendations to the General Assembly of Shareholders on matters requiring their approval;
- 11- Propose the appointment of external auditor and ensuring that the auditor 's report accurately reflects the financial statements;
- 12- Oversee the execution of MFI's annual external audit, ensuring the auditor's report accurately reflects the financial statements;
- 13- Promptly inform DAB in writing of any financial deterioration within the MFI, or the risk thereof, and any other significant factors affecting the institution's financial health.
- 14- Implement directives and instructions issued by DAB
- 15- Address matters within the Board of Supervisors' purview as defined by the MFI's Articles of Association (AOA).
- 16- Hold ultimate responsibility and accountability to all stakeholders, including the General Assembly of Shareholders, other stakeholders, and DAB
- 17- BoS shall ensure that the following processes are in place
 - Competent management;
 - Appropriate plans and policies;
 - Monitoring of operations, and compliance with laws, regulations;
 - Oversight financial performance of the MFI's; and
 - Prevention of the Conflicts of Interest.
- 18- Conduct meetings quarterly.
- 19- Hold two meeting via on online platform (web conference)
- 20- Appoint a secretary responsible for conducting, preparing, and recording minutes of the meetings.

(9) Board of Management structure

- 1- The board of management structure shall be three to five members, ensuring the number is always odd.
- 2- The Board of Management shall include minimum the following individuals:
 - Chief Executive Officer
 - Head of Operations
 - Head of Finance
- 3- At the same time a person can take care of two positions as per paragraph (9) part 2 for provincial MFIs, if DAB deem necessary.
- 4- If the parent company of MFI's exists, the BoM structure should be established separately and member of the MFI's Board of Management (BoM) shall not serve as a staff of the parent company
- 5- Board of Management (BoM) members shall meet the following criteria
 - A minimum of three years relevant experience



- At least a Bachelor's degree in Finance, business administration, Economic, law, shariah, IT or other relevant fields
- (10) Close family members are not allowed to occupy key positions, specially as a member of Board of Management (BoM).

(11) Board of Management duties and Responsibilities

- 1- The Board of Management shall conduct and manage the MFI's activities under the direction and oversight of the Board of Supervisors, and in alignment with the approved business strategy, risk appetite, and other policies.
- 2- Board of Management is responsible for delegating duties to staff and should establish a management structure that promotes accountability, transparency and sustainability within the MFI.
- 3- Board of Management shall provide the Board of Supervisors with necessary information to fulfill its responsibilities, supervise the Board of Management and assess the performance of senior management. This includes regularly informing the Board of Supervisors of material matters such as:
 - Development and preparation of business and risk strategies
 - Decisions on the establishment and dissolution of MFI agents.
 - The institution's performance and financial condition.
 - Violations of risk limits or compliance rules.
 - Failures in internal controls.
 - Legal or regulatory issues.
 - Concerns arising from the MFI's whistle-blowing procedures.

(12) Board of Management of a MFIs shall:

- 1- Organize, work and direct the day-to-day operation of the MFI in accordance with strategies and policies approved by the Board of Supervisors, and monitor the activities of the MFI's employees.
- 2- Implement the business strategy and policies approved by the Board of Supervisors, ensuring that business strategies, risk management systems, and processes are in place for managing both financial and non-financial issues.
- 3- Regularly identify and assess all risks.

(13) The MFI may establish the Risk Management section, which will operate independently and report to BoS or assigned committee. MFI is required to evaluate business risk management annually or as necessary, and take appropriate corrective measures based on the evaluation.

(14) The priority will give to Afghan cadre positions on the Board of Supervisors and Board of Management.

(15) Microfinance structure in Banks

- 1- Banks can provide microfinancing through a window (separate section) within the existing structure of the bank for the operational activities; bank can appoint and hire department managers and employees from internal and external sources as required.
- 2- The supervisory board, the management board, the compliance officer, risk manager, the internal and external auditors, and other related departments are required for their roles as in MFI operations.
- 3- The microfinance window (separate section) within banks is not premitted to receive or accept customers' deposits.



4- The microfinance window of banks shall operate in the field of microfinance according to this regulation.

Article (20) Internal and External Audit

- (1) Internal Audit Structure: Microfinance institutions must establish an independent internal audit structure that meets standard criteria.
- (2) Periodic Internal Audits: Microfinance institutions are required to conduct comprehensive internal audits periodically to ensure compliance with the laws, regulations, and guidelines of Da Afghanistan Bank.
- (3) Independence of Internal Auditors: Internal auditors must perform their duties independently and are obligated to submit their reports to the Board of Supervisors (BoS) Reporting to Da Afghanistan Bank
- (4) Microfinance institutions must submit the internal audit report to Da Afghanistan Bank following the approval of the supervisory board, within the timeframe specified by this regulation.
- (5) Conducting External Audits: External audits must be carried out by a well-established and reputable firm.

Article (21) Condition for recruiting compliance officer

- (1) The compliance officer shall have below eligibility criteria
 - 1- Must hold a Bachelor ‘s degree in Economic, Business Administration, Accounting or Law.
 - 2- Shall have a manimum 3 years relevant experience.
 - 3- Must poseess comprehensive knowledge about Laws and Regulations.
 - 4- Priority will be given to individuals holding an internationally certified AML/CFT degree.
- (2) The Compliance officer’s duties and responsibilities are broadly described in terms of AML/CFT (Anti-Money Laundering and Countering the Financing of Terrorism) duties and preventive measure regulations.

Article (22) Confidentiality/Disclosure of information

- (1) All employees of the financial institution are obliged to adhere with the principle of disclosure and confidentiality.
- (2) Employees cannot use financial institution information for their personal interest.
- (3) The information and data of the microfinance institution may be shared with the following entities for official purposes:
 - 1- Employees and representatives of Da Afghanistan Bank, such as auditors, supervisors, trustees and the insolvency team.
 - 2- According to the directions of judicial authroities and other authorized governmental or non-governmental departments.

Article (23) Allowed activities

- (1) The microfinance institution shall provide below products/services to customers as per norms, standards and guidelines of Islamic Products and Finance.

Islamic Products (Financing Mechanism)			
Participatory	Sell Based	Debt	Insurance



<ul style="list-style-type: none"> ▪ Mudarabah ▪ Musharkah 	<ul style="list-style-type: none"> • Murabahah • Ijarah • Bai Salam • Istisna • Wakalah 	<ul style="list-style-type: none"> • Qardh-ul-hasan 	<ul style="list-style-type: none"> • Takaful
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Article (24) Prohibited activities:

The Microfinance Institutions shall not engage in below activities:

- 1- Hawala/Remittance/ Transfer of Fund
- 2- Money Exchange
- 3- Providing EMI & PI activities
- 4- Taking Deposit
- 5- Issuing Bank Guarantee
- 6- Financing Large companies
- 7- Offering other services and products that do not align with the mandate of Microfinance institutions.

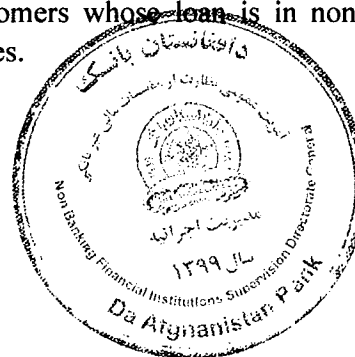
Chapter Five: Lending/Loan and Financing Conditions

Article (25) Condition for Loan disbursement

- (1) Microfinance institutions shall not disburse loans exceeding 1,000,000 Afghanis to their customers.
- (2) The microfinance institution must evaluate the capacity and repayment ability of the customer and take actions according to its internal policy.
- (3) Microfinance institutions are obliged to perform Customer KYC according to the AML/CFT Law and AML/CFT Preventative regulation.
- (4) The customer must possess an electronic identification card.
- (5) Microfinance institutions may disburse new loan to debtors who have previously received loan from the same institution or other institutions, provided the previous loan is settled.
- (6) The portfolio of the second category of microfinance as per paragraph 6, artical (4) of this regulation. shall not be exceed 40% of the total portfolio.
- (7) Da Afghanistan Bank may impose conditions for portfolio allocation to develop financial services and public access to microfinance, as necessary, through official letters.
- (8) Microfinance institutions must disburse loans in Afghanis
- (9) All paragraph of this article is also applicable on banks.

Article (26) Loan disbursement Limitations

- (1) Microfinance institution shall not disburse loan to the following persons:
 - 1- Shareholders, members of the Board of Supervisors (BoS), and Board of Management (BoM).
 - 2- Close relatives of the shareholders, members of the Board of Supervisors (BoS), and Board of Management (BoM).
 - 3- Sanction-listed persons and individuals as per different sanction regimes.
- (2) The financial institution shall not provide new loan to customers whose loan is in non-performing loan category, unless they pay all their previous dues.



- (3) A non-performing loan shall be placed on non-accrual basis and profit due but uncollected shall not be accrued as income but instead be shown as profit in suspense.

Article (31) Charge-offs

- (1) A loan that is uncollectible and no longer warrants continuation as a recoverable loan shall be charged off.
- (2) A loan or any portion of loan shall be charge-off within one year of being classified as a loss.
- (3) A charge-off shall be made against the specific loan loss reserve account. If the amount of the loan to be charged-off exceed the balance of the specific loan loss reserve account, additional reserve shall be established.
- (4) The recovery of the loan previously charged-off shall be recorded as income in the financial period during which such recovery occurs.

Article (32) Collateral/Microfinance Gurantee

- (1) Guarantee for the first category microfinance debtor (ranging from 5,000 up to 5,00,000 AFN) includes two guarantee letters from suitable persons who have electronic national ID. Microfinance institutions are not required to obtain movable and immovable collateral guarantees for first category Microfinance. In absence of providing the grenetees, MFI may obtain movable and immovable collateral guarantees according to their internal policies.
- (2) Guarantees for second-category microfinance (ranging from 500,001 up to 1,000,000 AFN) include three guarantee letters from suitable persons who have an electronic national ID and, or an immovable property with a Urofi or official legal document.
- (3) Microfinance institutions may develop their guarantees policy by observing prevalent conditions and risk predictions. These measures should not negatively impact the development of financial inclusion.
- (4) Microfinance guarantees shall be regularly reviewed by the relevant institution in adherence to internal policies, and the details of the review should be recorded in the loan documents file.
- (5) A guarantor cannot guarantee more than one debtor in one or more microfinance institutions. The MFI shall not accept a guarantor who has already guaranteed any other legal or natural person in the microfinance institutions.
- (6) MFIs are obliged to search the profile of the borrower or the guarantor in the public credit registration system before accepting the guarantee, ensuring compliance with Article 32 Microfinance institutions shall comply with the following conditions:
- 1- Pre-disbursement of loans: Microfinance institutions shall carefully review the borrower's activity considering the criteria of this regulation and specify the loan amount.
 - 2- When disbursing loans, the guarantee details should be included in the loan document/contract.
 - 3- Before setting the collection period, the useful life of the guarantee shall be considered, and the loan period should not exceed the useful life of the guarantee.
 - 4- The MFIs shall ensure the validity of collaterals and gurantee documents.
 - 5- For the purpose of operation, the MFIs shall have two bank accounts in country's commercial banks.



Article (33) Acceptable collateral/guarantee

(1) Acceptable movable guarantees are the following:

- 1- Jewelry: gold, silver and other valuables items that could be used and have a market price. The guarantee shall be kept with the institution based on documents, and will be returned to the debtor after the loans are settled according to the terms of the contract.
- 2- Vehicles: Obtaining the original documents of vehicle (Jawzsaer), along with guarantee letter from a real estate agency for the purpose of granting a loan.
- (2) Guarantee Letter: this document shall be issued by a suitable person (natural or legal) to secure repayment of loan installments.

(3) The following are acceptable as immovable guarantees:

- 1- Lands with a sharia or customary ownership document. Lands that are unusable, worthless or not salable or subject to flooding are not included.
- 2- Residential buildings, houses, and commercial buildings with Sharia or customary documents.
- 3- Shop/market that has a Sharia or customary document.
- 4- Factories, gardens, farms and other places that have valid documents.
- 5- Other guarantees that satisfy the reserve of losses can be projected into internal policy of MFI.

Article (34) Repossession of asset

- (1) Where MFI repossesses an asset for a microfinance loss, the book value of the repossessed asset shall be the unpaid balance of the outstanding amount of microfinance or the net realizable value of the asset.
- (2) If the net realizable value of an asset is less than the book value of the outstanding amount of the loan, the difference shall be charged-off through the provision for bad and doubtful debts of the MFI.

Article (35) AML/CFT responsibilities of MFIs

The MFIs shall carry out their operations and activities in line with AML-PC Law and anti-money laundering and terrorist financing responsibilities and preventive measure regulation.

Chapter Six: Microfinance Support and Aid Facilitating organizations

Article (36) Responsibilities

National or international, governmental or non-governmental Support and Facilitating organization, which are defined in paragraph (12) of article (4) of this regulation, have the following responsibilities:

- 1- Should obtain 'No objection certificate' from DAB after providing all details of their likely activities, funding, resources, and expected outcomes in the microfinance sector.
- 2- For the purpose of necessary decisions regarding the financial sector, they shall provide financial and activity reports as requested by Da Afghanistan Bank.
- 3- They can have an account in the central bank (Da Afghanistan Bank).
- 4- If the MFIs have account in commercial banks in accordance with paragraph 3 of this article to maintain funds, they shall report to DAB the fund withdrawal from such account for the purpose of financing MFIs.



- 5- They must have an operation account in commercial banks.
- 6- Other responsibilities and obligations may impose through official letters, if necessary.
- 7- They may not establish a microfinance institution.
- 8- Institutions that work exclusively for the purpose of supporting a specific sector/profession by providing Islamic financial services could provide financing by establishing a Microfinance institution or through other MFIs according to the provisions of this regulation.

Article (37) Condition for providing Donations/Grant/Aid/Fund or Financing

- 1- They shall provide financial/donation/grant facilities for DAB licensed Microfinance institutions.
- 2- They cannot grant small loans to customers as microfinance institutions do.
- 3- They should distribute aid/donations/grant to all licensed microfinance institutions according to their activities, operations and geographical areas.
- 4- They cannot grant all or a large part of the finance/aid to a single microfinance institution.
- 5- The fund/grants shall be transferred to institutions through commercial bank accounts;
- 6- The foreign currency aid shall be converted to Afghani through the central bank and then transferred to microfinance institutions in Afghani currency.

Article (38) Inspection and Supervision

- 1- To make sure the accuracy of financial reports. Da Afghanistan Bank can conduct on-site and off-site supervision of supporter and facilitating organization (s).
- 2- Supporter/facilitating organization (s) shall not supervise the operations and activities of Microfinance institution.
- 3- Supporter/facilitating organization (s) may share their concerns with DAB accordingly for the purpose of examination and supervision.
- 4- The Supporter/facilitating organization (s) may conduct subjective inspection for a specific matter or provided fund.
- 5- They may conduct a pre-observation of the MFI to ensure satisfaction for payment of donation or fund.

chapter Seven: Miscellaneous Provisions

Article (39) On-site and Off-site Supervision

- (1) Da Afghanistan Bank shall be authorized to conduct on-site and off-site supervision of the licensed MFIs to ensure compliance with all applicable laws, regulations, and Da Afghanistan Bank circulars.
- (2) The MFI and support organizations must provide all information, documents, and access to systems whenever requested by DAB for monitoring and supervision purposes. All information and documents submitted by MFI to Da Afghanistan Bank must be in soft and hard copy and duly signed by officials of the MFI.
- (3) Da Afghanistan Bank inspectors, based on their authority, shall access all relevant MFI entries, books, records, documents, and forms.
- (4) The supervision of Microfinance institution shall be conducted by non-Banking supervision department and the Banks MF window shall be inspected by Islamic Banking Supervision Department in accordance to this regulation.



- 3- Suspension of license;
 - 4- Annulment of license;
 - 5- Other enforcement actions as deemed suitable by DAB.
- (3) Inspectors may impose one or more of the measures listed in sections 1, 2, and 3 of paragraph 2 of this article at once, based on supervision findings.
 - (4) The provisions of this article shall apply to banks, in accordance with the internal procedures of the Islamic Banking Supervision Directorate.

Article (42) Record keeping

- (1) Records encompass all books, accounts, statements, computer system information, and other documents related to the business, transactions, and assets of the microfinance institution
- (2) Microfinance institutions and support organizations are obligated to implement appropriate measures to prevent the loss or destruction of records and the forgery of documents.
- (3) The document records of the microfinance institutions should be maintained in both hard and soft formats for at least 5 years.
- (4) The archiving of documents should be organized according to standard filing practices to ensure easy accessibility.

Article (43) Duties and Responsibilities of Association/Union

- (1) The MFIs should form a union or association to better manage their affairs. Each MFI must hold membership status within the union or association.
- (2) The union or association of MFIs must be registered with competent entities.
- (3) The union or association should have an advisory board and every MFI should be a member of the advisory board.
- (4) The chair and deputies should be selected based on the following criteria:
 - 1- The chair and deputies should be selected by the advisory board members through a transparent process.
 - 2- The Politically Exposed Person may not be elected as chair or deputies of the union or association.
 - 3- The chair and deputies should be qualified, have a good reputation, and be reliable individuals.
 - 4- They should be educated individuals with knowledge of laws and relevant regulations.
 - 5- They should not be members of any governmental bodies.
- (5) The union or association shall have the following duties:
 - 1- To work as bridge between the DAB, MFIs and support organizations especially through collection, organization of information on microfinance sector and periodic reporting.
 - 2- Identify issues of concern in microfinance sector and discuss with relevant stakeholders including DAB.
 - 3- To share notifications, guidelines, and instructions sent by DAB among all MFIs and support organizations.
 - 4- To notify Da Afghanistan Bank immediately whenever it identifies a person or institution engaging in microfinance activities in the market and related areas without a license.
 - 5- To assist in capacity building of stakeholders in the microfinance sector.



- 6- The information and certification sent to DAB by the union or association shall be accurate and authentic. Any subsequent responsibility belongs to the union or association.
- 7- The union or association's articles of association shall be prepared in accordance with the provisions of these regulations and other relevant regulations, and shall be registered with competent entities.

Article (44) NBFISD Internal Policies

- (1) For better implementation of this regulation, the NBFISD may develop procedures and guidelines, and recommend them to the senior authorities at DAB.
- (2) Not with standing anything contained in articles of this regulation, DAB can take any actions or measures in the interest of the microfinance sector to achieve overall objective as defined in article (2) of this regulation.

Article (45) Forgery of Documents

All institutions holding a valid license for the Microfinance Institution are obligated to make their utmost effort to ensure the accuracy of all documents presented to representatives of Da Afghanistan Bank. Any fraudulent intent or failure to report any specific transaction to Da Afghanistan Bank will result in enforcement measures.

Article (46) Effective Date of Regulation

This regulation is effective immediately after adoption by supreme council of Da Afghanistan Bank. It will also be published on the Da Afghanistan Bank website.

