

**Microfinance Institutions draft Modules – Volume 5**  
**Feedback Statement**  
**December 2013**

Reference to the draft Directive:	Comments	REF	CBB's Response
<p><b>AU-1.1.4</b>  <b>Licensees are prohibited from taking deposits.</b></p>	<p>A microfinance institution noted that in fact, microfinance refers to a movement that envisions a world in which low-income households has permanent access to a range of high quality and affordable financial services offered by a range of retail providers to finance income-producing activities, build assets, stabilize consumption, and protect against risk. Accordingly the business model of any microfinance institution should include the possibility of taking deposits not only as a source of fund for the institution to improve the Funds position and to cover operational costs, but also as to provide an integral service of promoting saving cultural and assets building among the poor. As a result, the MFIs licensed as Banks need to be permitted to take deposits, at least from their financed customers, on the condition that they are part of CBB's 'Payments and Settlement System'. Such enabling measure constitutes a fundamental pillar of the success of such microfinance Banks as it will ensure one source of funds for their growth.</p>	<p><b>SP1</b></p>	<p><b>Disagree</b>, in the final approval letter issued to the microfinance institution, the CBB has clearly mentioned the following (extracted) allowed activities for which the microfinance institution has agreed:</p> <ul style="list-style-type: none"> <li>• open trust accounts for the beneficiaries of the micro-financing loans with a condition not to utilize these to fund assets; by establishing a trust for the safe-custody of such type of deposits. The trust can deploy such amount in time deposits with banks;</li> <li>• accept funds from financial institutions only;</li> </ul>
<p><b>AU-1.2.2</b>  <b>providing conventional microfinance to an eligible beneficiary is defined as the provision of credit to a person</b></p>	<p>A microfinance institution noted that first they would like to recall the CBB attention that SME's in the Kingdom of Bahrain has an official</p>	<p><b>SP2</b></p>	<p>SMEs will be defined in the Glossary of Volume 5 for MFI institutions.</p>

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<p><b>in his capacity as borrower or potential borrower. The maximum amount provided under the microcredit shall not exceed BD 5,000 in aggregate per eligible beneficiary. The repayment period must not exceed 3 years.</b></p>	<p>definition characterizing it into three classes: Micro, Small and as per the following details:<sup>1</sup></p> <ul style="list-style-type: none"> <li>• Micro Enterprises –would involve Full time employment up to 10 persons and capital investment up to BD 20,000.</li> <li>• Small Enterprises –would involve Full time employment more than 10 and up to 50 persons; capital investment more than BD 20,000 and up to BD 500,000.</li> <li>• Medium Enterprise – Full time employment more than 50 and up to 150 persons; capital investment more than BD 500,000 and up to BD 2 million.</li> </ul> <p>According to this classification and knowing the nature of Bahrain economy which is an open and market leased economy, these Micro Enterprises will operate in any business sectors and will certainly have different financial needs for their operations. More, microfinance institutions worldwide are providing financial supporter for both home-based informal businesses and Micro Enterprises owners, (in Bahrain they are called “small CR’s”). The microfinance institution is providing two programs are designed to fit different categories’ needs. More, the Bank has extended finances to hundreds of those micro entrepreneurs who are seeking finance to face their cash flow problem. On other hand, the</p>	<p>The CA Module of Volume 1 currently defines SMEs as:</p> <p>(CA-5.3.4)          ....SME borrowers (defined as corporate exposures, being an unlisted or unincorporated enterprise where the reported annual sales for the consolidated group of which the firm is a part is less than BD 2 million) from those to large firms.</p>
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<sup>1</sup>Small and Medium Enterprises (SME's) Statement of Policy: Ministry of Industry & Commerce, Kingdom of Bahrain, 14<sup>th</sup> December 2006.

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	<p>Maximum amount provided by the microfinance institution is currently 7,000, which has been reported as too low by many customers taking into consideration the raise of prices and inflation, especially those who wish to expand their businesses to acquire a CR and not able to provide the requirements of other Banks.</p> <p>Accordingly it is recommended that the maximum amount should therefore be raised to BD 15,000, keeping in view that according to reports in 2010, 87.8% of SME’s in Bahrain are micro-enterprises and the generated needs by those businesses in term of small amount and short term facilities for the costs of setting up their business.</p>		<p>Disagree, the purpose of MFI is to provide small amounts of loan to individuals who are not eligible to secure financing facilities through the normal banking system. Otherwise, for higher amounts customers can approach retail banks.</p>
<p><b>AU-1.2.4</b>  <b>For the purpose of this Section, <u>eligible beneficiary(ies)</u> means:</b>  <b>Low income individuals, who are not eligible to secure financing facilities through the banking system that intend to get a credit facility to engage in small economic activities (examples: small farmers, fishermen, related activities etc.).</b></p>	<p>A microfinance institution noted that it is also dealing with the customers holding CRs for various businesses, it will be more practical to include ‘small businesses’ (small CR’s holders) also in the examples.</p>	<p><b>SP3</b></p>	<p>The phrase “related activities” covers small businesses. However, there is no harm in adding it.</p> <p>Will be added in the amended version.</p>
<p><b>AU-1.2.6</b>  <b>A person does not carry on an activity constituting a regulated microfinance service if the activity:</b>  <b>(a) Is carried on in the course of a business which does not ordinarily constitute the carrying on of microfinance services;</b>  <b>(b) May reasonably be regarded as a</b></p>	<p>A microfinance institution noted that this clause and its explaining points are not clearly formulated, moreover it’s not simple to have clear classes as you detailed in a, b, c and d, the non-eligible persons to microfinance. The bank can simply designate customers of microfinance as per the definition: “Microfinance” provides financial facilities to people who otherwise wouldn’t have</p>	<p><b>SP4</b></p>	<p>MFIs are the designated entity to lend money to individuals that qualify as eligible beneficiaries. It should not be providing lending facilities to NGOs as NGOs are not designated as financial institutions within the regulatory framework of the CBB Law.</p>

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<p>necessary part of any other services provided in the course of that business;</p> <p>(c) Is not remunerated separately from the other services; and</p> <p>(d) Is carried out by a government entity in Bahrain authorized to provide such activity by Royal Decree or relevant legislation or a non-government organization (NGO) registered with the Ministry of Social Development for that purpose.</p>	<p>had access to such facilities”. Such definition provides wider range of customers.</p> <p>Moreover, one of the current programs of the microfinance institution is providing facilities to NGO’s to work as intermediary or agent for the Bank so it will conflict with the above mentioned point excluding NGO’s.</p>		
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**September 2013**  
**CA Module**

Reference to the draft Directive:	Comments	REF	CBB's Response
<p><b>CA-1.1.1</b>  A licensee must maintain a minimum paid-up capital of BD5 million provided by the shareholders/promoters/ and/or through grants and donations. A greater amount of capital may be required by the CBB on a case-by-case basis.</p>	<p>A microfinance institution noted that this clause should state 'maintain <u>at all times</u>' as to keep quite enough capital for the licensee to face the financial needs of this type of organizations under the socio-economic in Bahrain.</p>	<p><b>SP5</b></p>	<p>Agree. The Rule will be amended as suggested.</p>
<p><b>CA-1.1.2</b>  In addition to the requirements of Paragraph CA-1.1.1, the CBB may require that an acceptably worded letter of guarantee be provided. The CBB may seek a letter of guarantee from <u>controllers</u>.</p>	<p>A microfinance institution noted that this clause requires clarification to define the contents and wording of the letter of guarantee.</p>	<p><b>SP6</b></p>	<p>The CBB may provide the licensee with a template.</p>
<p><b>CA-1.2.2</b>  For purposes of Paragraph CA-1.2.1, net liquid assets comprise of unencumbered cash, cash equivalents, treasury bills, and placements and balances with banks maturing within 30 days less any liabilities due within 30 days.</p> <p>***Non-performing is the sum of more than 60 days past due (Substandard, Doubtful and loss Credit Facilities)</p>	<p>A microfinance institution noted that Page no.11 of New PIR does not take into consideration the liabilities maturing within 30 days in Net Liquid Assets calculation.</p> <p>A microfinance institution noted that the non-performing facilities are a matter of internal policy of each microfinance bank as it has a direct relation with the credit behavior of its customers. The NPF should continue to be from 90 days past due, as before and as mentioned in the CM module of Rulebook (under consultation), due to the risk induced by this change on the income</p>	<p><b>SP7</b></p>	<p>Noted, the PIR will be amended accordingly.</p> <p>Not part of this consultation. This will be addressed in Module RM upon issuance.</p>

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**CA Module**

	<p>suspensions as also specific provisions will require adjustments.  On page no.6 of New PIR, what’s the meaning of “Watch list facilities?”</p>		<p>The definition of “watch list facilities” as per the consulted CM Module of Volume 1 is:</p> <p>“Watch-list facilities” are those which show some weaknesses in the customer’s (or counterparty’s) financial condition or creditworthiness, requiring more than normal attention but not necessarily requiring the allocation of specific provisions (or impairment allowances). “Watch” could include “performing” facilities which are not regular in repayment or are regular but there is minor deterioration in the financial position of the customer or counterparty or the underlying collateral. “Watch” must include any facilities which are less than 90 days overdue and which are not (yet) included in “sub-standard”, “doubtful” or “loss” (i.e. the facility can be regarded as overdue but not yet “impaired” according to IFRS).</p>
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**BC Module**

Reference to the draft Directive:	Comments	REF	CBB's Response
<p><b>BC-1.4.3</b>  <b>A licensee must make available, at their premises, information leaflets containing information in respect of all credit agreements including the Annual Percentage Rate (APR) as defined in Paragraph BC-1.4.10</b></p>	<p>A microfinance institution noted that currently it charges a flat rate, which is easily understood by the simple, unsophisticated customers of the Bank. APR will be confusing for the customers, as it may vary with the period/ tenor and also for different products. In addition, the Bank's IT system does not support the calculation of APR.</p>	<p><b>SP8</b></p>	<p>Disagree.  The APR is a standard measure that includes all fees in relation to the lending activity. Presenting one APR is a better approach and less confusing than presenting an interest rate + additional fees separately.</p>

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**BR Comments**

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<p><b>BR-1.2.5</b>  <b>Licensees are required to submit to the CBB (unaudited) semi-annual financial statements (in the same format as their annual audited accounts), within two months of the date of these statements.</b></p>	<p>A microfinance institution noted that it has an exception from the Governor of the CBB about this point, kindly clarify.</p>	<p><b>SP9</b></p>	<p>Disagree; all MFI must adhere to this requirement from the date of issuance of the Modules as final.</p>