

**LAW
ON MICROCREDIT ORGANIZATIONS**

I - GENERAL PROVISIONS

Article 1

This Law stipulates the establishment, activity, form of organization and registration, the operations, method of governance, supervision of operations and termination of operations of microcredit associations and microcredit foundations (hereinafter: microcredit organizations).

Article 2

(1) A microcredit organization in terms of provisions of this law is a non-depository financial organization whose core activity is microcredit lending.

(2) A microcredit organization carries out the microcredit activity in compliance with this law, with the objective of improving the financial position of microcredit beneficiaries, increasing employment, providing the support to the development of entrepreneurship and acquisition of profits.

Article 3

(1) A microcredit organization is a legal entity which may be founded and may operate as a microcredit association or as a microcredit foundation.

(2) Microcredit organization acquires the status of a legal entity by entering the court register of business associations, i.e. the court register of citizens' associations.

(3) Application for registration in the court register is submitted not later than 30 days after license for operation was granted by the Banking Agency of Republika Srpska (hereinafter: the Agency).

(4) Organizational parts of microcredit companies are also entered into the court registry in compliance with provisions regulating entries into the court register.

Article 4

(1) A microcredit in terms of provisions of this Law is a credit disbursed in the maximum amount of KM 50,000 by a microcredit association or KM 10,000 by a microcredit foundation.

(2) Limits referred to in Paragraph 1 of this Article include all credits by a single microcredit organization or a group of related microcredit organizations to a single credit beneficiary, and they are aggregated.

Article 5

(1) Activities of disbursing microcredit may be carried out as an activity only by microcredit organizations that had obtained a license to perform those activities (hereinafter: the license) from the Agency and carried out the entry into the court register.

(2) A license referred to in Paragraph 1 of this Article is issued for an unlimited period of time and is not transferable.

(3) The Agency stipulates conditions that have to be met and the documentation that is submitted for the issuance of the license referred to in Paragraph 1 of this Article.

Article 6

(1) A microcredit organization may carry out the microcredit activity in its headquarters and in organizational parts outside the headquarters, i.e. in branch and sub-branch offices.

(2) Organizational part of foreign organization that wish to carry out microcredit activities in Republika Srpska has to be registered as the legal entity and is obliged to obtain the license pursuant to Article 5 Paragraph 1 of this Law, and fulfill the conditions prescribed by the Agency.

II ESTABLISHMENT OF MICROCREDIT ORGANIZATION

Article 7

(1) A microcredit organization may be established by at least three domestic or foreign natural persons and by at least one domestic or foreign legal entity, under conditions stipulated by this Law.

(2) A person being authorized for the representation of the microcredit organization, pursuant to the founding enactment, submits to the Agency an application for the issuance of the license, together with evidence on fulfilling the conditions and prescribed documentation, pursuant to Article 5 Paragraph 3 of this Law.

(3) The Agency issues a decision on approving or refusing the application for the issuance of the license within 60 days from the date of receiving a regular and comprehensive application.

Article 8

(1) The Agency issues the approval on founding and other enactments of a microcredit organization that are prescribed by the Agency, as well as on all amendments and additions to those enactments in compliance with this Law.

(2) Enactments referred to in Paragraph 1 of this Article shall not come into force before they are approved the Agency.

Article 9

(1) A microcredit organization having no license issued by the Agency may carry out activities of disbursing micro-credits by opening organizational parts in and outside its residence in cases when such organizational parts are not entered into public registers, under obligation of informing the Agency on such organizational parts within 8 days from the date of their establishment.

(2) A microcredit organization with the headquarters in Republika Srpska may carry out activities of disbursing micro-credits outside Republika Srpska by opening organizational parts in compliance with this Law and country regulations, i.e. regulations of the entity where the activities are to be carried out.

(3) A microcredit organization is obliged to inform the Agency on its newly established organizational part outside Republika Srpska within 8 days from the date of entering the register outside Republika Srpska, i.e. obtaining license for extending micro-credits outside Republika Srpska.

Article 10

(1) In order to open their organizational parts in Republika Srpska microcredit organizations with the headquarters in Federation of Bosnia and Herzegovina and Brcko District are obliged to acquire operating license from the Agency.

(2) The Agency stipulates the conditions that have to be met and the documentation that is submitted for the issuance of the license referred to in Paragraph 1 of this Article.

(3) Reasons and procedure for withdrawing an issued license from Paragraph 1 of this Article is stipulated by the Agency in a general enactment.

Article 11

Besides the compulsory elements stipulated by laws that duly apply to microcredit organizations, unless otherwise stipulated by this law, Statute of microcredit organizations also has to contain provisions on issues for which this law indicates that they should be regulated by the Statute.

Article 12

(1) The enactments of the Agency are final.

(2) A dispute procedure against the enactments of the Agency referred to in Paragraph 1 of this Article may be launched at the competent court in accordance with the Law on Administrative Lawsuits.

Article 13

(1) The Agency keeps the registry of microcredit organizations with the headquarters in Republika Srpska and the registry of organizational parts in Republika Srpska of microcredit organizations with the headquarters in the Federation of Bosnia and Herzegovina and the Brcko District.

(2) The data from the registry of microcredit organizations are public.

Article 14

The Agency shall make a decision on definition of persons which are considered related to microcredit organization in the sense of this law.

Article 15

(1) Microcredit organizations may establish an independent, voluntary and non-profit association of microcredit organizations.

The Statute of the Association of microcredit organizations must contain the provision stipulating that microcredit organizations cannot sign contracts with other microcredit organizations or associations of microcredit organizations that may limit application of the principle of the free market and transparent competition in operation of microcredit organizations.

III - ACTIVITIES OF MICROCREDIT ORGANIZATIONS

Article 16

(1) A microcredit organization may provide only the activities of granting microcredit as its basic activity entered into the court registry.

(2) A microcredit organization may provide, in a lesser scope or temporarily, other activities that serve the activity of micro crediting and that are commonly executed together with the activity of micro crediting, including the following:

- a) receiving and giving out gifts and donations and raising financial assets and other forms of property from any legal source;
- b) giving and pledging/mortgaging property, including microcredit, to secure borrowing, and
- c) credit consultations, business counseling and technical assistance aimed at the improvement of credit activities of the microcredit organization and business activities of microcredit beneficiaries.

(3) A microcredit organization cannot accept cash deposits and savings deposits from natural persons or legal entities.

Article 17

A microcredit organization is obliged to stipulate and make available to the public the conditions for extending microcredit that may include provisions on the method of securing microcredit, i.e. liens over the property or rights of beneficiaries of microcredit.

Article 18

(1) A microcredit organization is obliged to disclose the effective interest rate on microcredit.

(2) The method of calculation and disclosure of the effective interest rate on microcredit referred to in Paragraph 1 of this Article is stipulated by the Agency's general enactment.

IV - REPORTING AND AUDIT

Article 19

(1) A microcredit organization is obliged to keep business books and records, as well as to prepare and present financial statements in compliance with regulations regulating the area of accounting and audit.

(2) A microcredit organization is obliged to submit the financial statements referred to in Paragraph 1 of this Article to competent authorities according to the manner and within the timeframes stipulated by legal provisions regulating the area of accounting and audit, and other enactments of authorities in charge.

(3) A microcredit organization is obliged to appoint, with the approval of the Agency, an external auditor who shall carry out the audit of annual financial statements and prepare the audited report, in compliance with the law and other regulations regulating the area of accounting and audit.

(4) A microcredit organization is obliged to submit to the Agency the annual financial statements, together with the audited statement, within five months from the expiry of the business year to which the reports refer, at the latest.

(5) A microcredit organization is obliged to publish its audited statement, in the abbreviated form, in one or more daily newspapers available throughout Bosnia and Herzegovina within 30 days from the day of receiving it, and to inform the Agency of it immediately, submitting a copy of the disclosure to it.

Article 20

A microcredit organization is obliged to submit to the Agency reports on operations in the form, with the contents and within timeframes stipulated by Agency, as well as to present for review business books and records for the purposes of carrying out an examination.

V - SUPERVISION OF MICROCREDIT ORGANIZATIONS AND REVOKING OF LICENSE

Article 21

The Agency carries out the supervision over the operations of microcredit organizations with the headquarters in Republika Srpska and of organizational parts in Republika Srpska of microcredit organizations with the headquarters in Federation of Bosnia and Herzegovina and Brcko District, as well as issuing orders and undertaking measures to remove illegal matters and irregularities found out.

Article 22

The Agency stipulates the method of carrying out supervision, the procedure of issuing orders and undertaking measures, together with timeframes for the elimination of determined illegalities and irregularities, by issuing an enactment.

1. Withdrawal of the Permit

Article 23

(1) The Agency may withdraw from a microcredit organization the operating permit from Article 5, Paragraph 1 of this Law in case the microcredit organization:

- 1) fails to submit the application for the entry into the authorized registry within 30 days from the date of issuance of the permit,
- 2) fails to provide microcredit activities within the timeframe of 4 months from the date of entry into the authorized registry or fails to provide those activities during a period exceeding 6 months,
- 3) has acquired the permit on the basis of untrue statements and data that had mislead the Agency,
- 4) ceases to fulfill the conditions prescribed for acquiring the permit,
- 5) fails to maintain the amount of founders' capital, i.e. deposit, and reserves at least in the minimum amount set by this Law and the regulations of the Agency,
- 6) carries out activities that are not microcredit activities,
- 7) fails to act in compliance with the order for elimination of determined irregularities, i.e. illegalities, within the timeframe stipulated by an enactment of the Agency,
- 8) neither fulfills conditions for operations nor carries out activities of disbursing microcredit in compliance with the provisions of this Law and enactments of the Agency,
- 9) an effective verdict has been issued creating preconditions necessary to revoke permit for operation.

(2) The Agency shall prescribe the procedure of revoking the permit by an enactment.

Article 24

Microcredit organizations are obliged to pay to the Agency a fee for providing activities of supervision and control in accordance with the tariffs prescribed by the Agency.

VI - FORMS OF ORGANIZING A MICROCREDIT ORGANIZATION

(1) Microcredit Association

Article 25

- (1) A microcredit association is established and operates in a form of a limited liability business company or a joint stock company.
- (2) The provisions of the Law on Business Companies duly apply to microcredit companies, unless otherwise stipulated by this Law.
- (3) Besides the compulsory elements that are in compliance with the Law on Business Companies, the name of a microcredit company also has to contain the designation reading „microcredit association“.
- (4) No one is allowed to use the label reading „microcredit association“ in the context of designating the activity without the approval of the Agency.

Article 26

- (1) Besides the general conditions prescribed for the entry of microcredit association into the authorized court registry, the permit of the Agency referred to in Article 5 Paragraph 1 of this Law represents a special condition for the entry of a microcredit association into the court registry.
- (2) The person authorized for representing a microcredit association is obliged to submit a report to Agency of any change of data or documents on the basis of which the permit referred to in Article 5 Paragraph 1 of this Law was issued, within the timeframe of eight days from the date of onset of such a change.
- (3) Changes of data or documents referred to in Paragraph 2 of this Article are reported for entry into the court registry of business entities in the sense of provisions set out in Paragraph 1 of this Article in case such an obligation is stipulated by the Law on Business Companies.

Article 27

- (1) The minimum amount of the core capital of a microcredit association amounts to KM 500,000 and has to be fully paid in cash.
- (2) The core capital of a microcredit association paid in items and rights expressed in cash value is assessed by an authorized assessor.
- (3) The minimum amount of core capital that a microcredit association has to maintain cannot be lower than the amount stipulated in Paragraph 1 of this Article.
- (4) Core capital paid in cannot be considered as the capital in case it is:
 - a) financed by credit funds approved by the microcredit association in which capital is being invested,
 - b) financed by credit funds that are being approved by other microcredit organization or bank for other purpose, or
 - c) financed by credit funds whose return has been guaranteed by the microcredit association in which capital is being invested.

Article 28

- (1) Microcredit association is obliged to form and maintain obligatory reserves in compliance with provisions of the Law on Business Companies.
- (2) Besides obligatory reserves, microcredit association is obliged to form and maintain reserves for the coverage of credit losses in compliance with the enactment of the Agency.

Article 29

- (1) The bodies of a microcredit association are the following:
 - a) the Assembly,
 - b) the Supervisory Board,
 - c) the Management, and
 - d) the Audit Committee appointed by the Supervisory Board.
- (2) Statute of a microcredit association may stipulate that the Board of Executive Directors is also elected in a microcredit association.

- (3) The election, dismissal and the scope of authority of the bodies of a microcredit association and its representation are regulated by the Statute, as the basic enactment of the microcredit association.

Article 30

- (1) Two or more microcredit associations may merge into a new microcredit association transferring assets and liabilities in such a way that they cease to exist, and the newly established microcredit association becomes their legal successor.
- (2) A microcredit association may be subject to acquisition to another microcredit association which becomes the legal successor of the acquired company, which therefore ceases to exist.
- (3) A microcredit association may be divided in such a manner that it ceases to exist by transferring its assets and liabilities to two or more either existing or new microcredit associations that become its legal successors.

Article 31

(1) In case of status changes of merger, acquisition or division referred to in Article 30 of this Law, the microcredit association is obliged to acquire the permit for the status change from the Agency prior to submitting an application for the entry into the court registry.

(2) The newly established microcredit association resulting from the status changes referred to in Article 30 of this Law has to acquire a permit from the Agency to perform activities related to extending microcredit prior to being entered into the court registry.

(3) Together with the application for receiving the permit referred to in Paragraph 1 of this Article, the microcredit association is obliged to submit the following documentation to the Agency:

- a) a decision or a contract on the establishment and Statute of the microcredit association that shall become the legal successor;
- b) data on the owners of shares in the microcredit association that shall become the legal successor;
- c) data on the members of bodies of a microcredit association that shall become the legal successor;
- d) financial statements and the description of methods on the basis of which the value and the allocation of assets and liabilities were determined in the process of merger, acquisition or division of microcredit association;
- e) a study of economic viability and the business plan of the microcredit association resulting from the status change.

(4) Besides the documentation referred to in Paragraph 2 of this Article, the Agency may also prescribe the conditions that have to be fulfilled and documentation that has to be submitted for acquiring the permit referred to in Paragraph 1 of this Article.

Article 32

The Agency shall issue a decision on approving or refusing the application for the issuance of the permit for status changes within 60 days from the date of receiving a regular and comprehensive application.

Article 33

- (1) A microcredit association is terminated in the manner and in cases stipulated by its founding enactment, i.e. the Statute, this Law and the Law on Business Companies.

- (2) Except for the manner and cases referred to in Paragraph 1 of this Article, a special reason for termination of a microcredit association shall be created as of the date of the Agency's lawful decision on revoking the permit referred to in Article 5, Paragraph 1 of this Law.
- (3) In the case referred to in Paragraph 2 of this Article, the Agency, acting within the scope of its authority, requests from the competent court to issue a decision on termination and removal of the microcredit association from the court registry.

Article 34

In the case of onset of a special legal reason for the termination of a microcredit association referred to in Article 33 Paragraph 2 of this Law, the procedure of liquidation or bankruptcy is executed over the microcredit association in compliance with laws regulating the procedures of liquidation and bankruptcy respectively.

2. Microcredit Foundation

Article 35

- (1) The provisions of the Law on Associations and Foundations of Republika Srpska shall be applied to microcredit foundation, unless otherwise stipulated by this Law.
- (2) Besides the compulsory elements that are in compliance with the Law referred to in Paragraph 1 of this Article, the name of a microcredit foundation also has to contain the designation reading „microcredit foundation“.
- (3) No one is allowed to use the designation reading „microcredit foundation“ in the context of designating the activity without the approval of the Agency.

Article 36

- (1) Besides the general conditions prescribed for the establishment and entry into the registry of a microcredit foundation, the permit of the Agency referred to in Article 5 Paragraph 1 of this Law represents a special condition for the entry of a microcredit foundation into the registry of foundations.
- (2) The person authorized for representing a microcredit foundation is obliged to inform the Agency of any significant change of data or documents on the basis of which the permit referred to in Article 5 Paragraph 1 of this Law was issued, within the timeframe of eight days from the date of onset of such a change.
- (3) Changes of data or documents referred to in Paragraph 2 of this Article are reported for entry into an appropriate public registry referred to in Paragraph 1 of this Article in case such an obligation is stipulated by the Law on Associations and Foundations of Republika Srpska.

Article 37

- (1) When a microcredit foundation is established its founders' contribution may be paid in cash and in items and rights expressed in their cash value, taking into account that the contribution paid in cash have to amount to at least KM 50,000.
- (2) Contribution in items and rights is assessed by an authorized assessor.
- (3) The minimum amount of overall founders' contribution in cash that a microcredit foundation has to maintain cannot be lower than the cash amount stipulated in Paragraph 1 of this Article.

- (4) Founders' contribution cannot be considered as the contribution paid in if it is:
- a) financed by credit funds approved by the microcredit foundation in which the contribution is being paid,
 - b) financed by credit funds that are being approved by another microcredit organization or bank for other purpose or
 - c) financed by credit funds whose return has been guaranteed by the microcredit foundation in which the contribution is being paid.

Article 38

- (1) A microcredit foundation is obliged to form and maintain obligatory reserves.
- (2) Every year obligatory reserves shall be increased by an amount of at least 5% of surplus of revenues over expenses until the amount of obligatory reserves reaches a proportion to contributions paid in as determined by the statute which shall not be lower than 10% of the total contributions paid in.
- (3) If the amount of obligatory reserve referred to in Paragraph 2 of this Article has decreased it shall be replenished up to the amount prescribed.
- (4) In addition to the obligatory reserve, a microcredit foundation shall establish and maintain reserves for coverage of credit loss in compliance with the Agency's general enactment.

Article 39

- (1) A microcredit foundation is not allowed to carry out any legal transaction in which it would pay, i.e. collect an amount that significantly differs from the rational market value of goods or services that the microcredit foundation is receiving, i.e. giving out in the executed legal transaction.
- (2) A microcredit foundation cannot extend microcredit to related parties.

Article 40

- (1) Microcredit foundations are obliged to invest surplus of revenues over expenses into microcredit activities in compliance with this Law.
- (2) Direct or indirect allocation of surplus revenues over expenses referred to in Paragraph 1 of this Article to founders, members of bodies, responsible persons or employees in the microcredit foundation or other related parties, donors or third parties, is not allowed.

Article 41

- (1) The bodies of a microcredit foundation are the following:
 - a) the Management Board, as the managing body, appointed by the founders,
 - b) the Director, as the executive body, and
 - c) the Audit Committee, comprising of at least three members appointed by the Management Board.
- (2) Statute of a microcredit foundation may stipulate that the Assembly and the Board of Executive Directors are also elected in the microcredit foundation.
- (3) The election, dismissal and the scope of authority of the bodies of a microcredit foundation and its representation are regulated by the Statute, as the basic general enactment of a microcredit foundation.

Article 42

- (1) Transferring their assets and liabilities two or more microcredit foundations may be merged into a new microcredit foundation in such a way that they cease to exist, and the new microcredit foundation becomes their legal successor.
- (2) Transferring its assets and liabilities a microcredit foundation may be acquired by another microcredit foundation which becomes the legal successor of the acquired foundation, which therefore ceases to exist.
- (3) A microcredit foundation may be divided in such a manner that it ceases to exist by transferring its assets and liabilities to two or more either existing or new microcredit foundations that become its legal successors.

Article 43

- (1) In order to achieve its statutory goals and activities, a microcredit foundation may invest and transfer its assets so that, either independently or jointly with other domestic or foreign natural or legal entities, it establishes a new microcredit association or acquires ownership shares in the existing microcredit companies, in the manner stipulated by Statute of the microcredit foundation, this Law and the Law that duly applies to microcredit organizations, unless otherwise stipulated by this Law.
- (2) Revenues acquired by the ownership shares in the microcredit company, microcredit foundation may use only for carrying out the activities and fulfilling the goals set forth in the Statute of the microcredit foundation, in compliance with this Law.
- (3) The same limitations that concern microcredit foundations pursuant to Article 39 of this Law duly apply to the operations of the microcredit association referred to in Paragraph 1 of this Article with related parties for the period of five years.

Article 44

- (1) In the case of status changes of merger, acquisition or division referred to in Articles 42 and 43 of this Law, the microcredit foundation is obliged to acquire the permit for the status change from the Agency prior to submitting an application for the entry into the registry of foundations.
- (2) The newly established microcredit foundation resulting from the status changes referred to in Article 42 and the newly established microcredit association resulting from investments pursuant to Article 43 Paragraph 1 of this Law has to acquire a permit for the provision of microcredit activities from the Agency prior to being entered into the court registry.
- (3) Together with the application for acquiring the permit for a status change, the microcredit foundation is obliged to submit the following documentation to the Agency:
 - 1) a decision or a contract on the establishment and Statute of the microcredit foundation that shall become the legal successor, i.e. the microcredit association in which the microcredit foundation is investing assets;
 - 2) data on the founders of the microcredit foundation that shall become the legal successor, i.e. the owners of shares in the microcredit association in which the assets are being invested;
 - 3) data on members of managing bodies and the Director of the microcredit foundation that shall become the legal successor, i.e. the microcredit association in which the investment is being made;

- 4) financial statements and the description of methods on the basis of which the value and the allocation of assets and liabilities were determined in the process of merger, acquisition or division of microcredit organizations;
- 5) in case of an investment referred to in Article 43 Paragraph 1 of this Law, financial statements and the description of methods on the basis of which the value and the allocation of assets that are being transferred and the share that is being acquired by the microcredit foundation, in relation to the invested value of assets and shares that are being acquired by every other participant in that procedure; and
- 6) a study on economic viability and the business plan of the microcredit organization resulting from the status change.
 - (4) Besides the documentation referred to in Par. 2 and 3 of this Article, the Agency may prescribe additional conditions that have to be fulfilled and documentation that has to be submitted for acquiring the permit for the status change referred to in Paragraph 1 of this Article.
 - (5) The Agency may refuse to issue the permit referred to in Paragraph 1 of this Article in case it determines that the planned transfer of assets and liabilities is not in compliance with Article 39 Paragraph 1 of this Law.

Article 45

The Agency shall issue a decision on approving or refusing the application for the issuance of the permit for status changes within 60 days from the date of receiving a regular and comprehensive application.

Article 46

- (1) A microcredit foundation is terminated in the manner and in cases stipulated by its founding enactment or the Statute, this Law and the Law on Associations and Foundations of Republika Srpska.
- (2) Additionally to the method and cases referred to in Paragraph 1 of this Article, a special reason for termination of a microcredit foundation is created as of the effectiveness date of the Agency' decision on withdrawal of the permit referred to in Article 5 Paragraph 1 of this Law.
- (3) In the case referred to in Paragraph 2 of this Article the Agency shall, ex officio, submit to a competent authority an application for deletion of a microcredit foundation from the registry of foundations.
- (4) The costs of submitting the application referred to in Paragraph 3 of this Article are covered by the microcredit foundation.

Article 47

- (1) Following the settlement of liabilities of the microcredit foundation that is being terminated pursuant to provisions of Article 46 of this Law, the remaining assets is distributed by the decision of the management body of the microcredit foundation, in compliance with the Law on Associations and Foundations of Republika Srpska.
- (2) If, within the period of 30 days from the date of effectiveness of the Agency' decision on the withdrawal of the permit referred to in Article 5 Paragraph 1 of this Law, the management body of the microcredit foundation fails to adopt and submit to the Agency the decision referred to in Paragraph 1 of this Article, the Agency shall, ex officio, issue a decision on the allocation of the remainder of assets of the microcredit foundation within

the timeframe of 30 days, in compliance with the Law on Associations and Foundations of Republika Srpska.

VII - PENALTY PROVISIONS

1. Criminal Offences

Article 48

- (1) A person conducting the microcredit activities without the acquired permit or contrary to the conditions under which the permit had been issued, shall be punished and sentenced to prison for a period of three months to five years.
- (2) If, by conducting the offence referred to in Paragraph 1 of this Article is acquired proprietary benefit exceeding the amount of KM 10,000, the committer shall be punished and sentenced to prison for the period of one to eight years, and if that amount exceeds KM 50,000, the committer shall be punished and sentenced to prison for the period of two to ten years, and if that amount exceeds KM 200,000 KM, the committer shall be punished and sentenced to prison for the period of at least five years.

2. Misdemeanors

Article 49

- (1) A microcredit organization shall be penalized with a cash fine in the amount between KM 1,500 and KM 15,000 for the following misdemeanors:
 - 1) approving a microcredit contrary to provisions of Article 4 of this Law,
 - 2) applying a general enactment for which it had not received an approval from the Agency (Article 8),
 - 3) failing to inform the Agency within the prescribed timeframe on the establishment of organizational parts that are not entered into authorized registries (Article 9, Paragraph 1),
 - 4) establishing the organizational part of a microcredit organization without the Agency' permit (Article 9, Paragraphs 1 and 2),
 - 5) having a headquarters in the Federation of Bosnia and Herzegovina and the Brcko District, and opening an organizational part in Republika Srpska without the permit of the Agency (Article 10, Paragraph 1),
 - 6) additionally to its basic operation of extending microcredit enters into the registry and executes other business activities (Article 16, Paragraph1),
 - 7) providing activities that do not serve the activity of microcredit and that are commonly not executed together with the activity of microcredit, contrary to Article 16, Paragraph 2,
 - 8) failing to prescribe and make available to the public the conditions for extending microcredit (Article 17),
 - 9) failing to disclose the effective interest rate on microcredit (Article 18),
 - 10) failing to inform the Agency and the public in compliance with the prescribed conditions and failing to submit to the Agency financial statements and audited statements (Article 19),
 - 11) failing to submit to the Agency the reports on operations in compliance with the Agency regulations (Article 20) and
 - 12) carrying out transaction of receiving, i.e. giving out goods or services contrary to provisions of Article 39, Paragraph 1 of this Law.
- (2) A microcredit association shall be penalized with a cash fine in the amount between KM 1,500 and KM 15,000 for the following misdemeanors:
 - 1) being entered into the court registry or acting in the legal system using without authorization

the title „microcredit association“ (Article 25 Paragraph 4 and Article 26 Paragraph 1),
2) failing to submit to the Agency within the prescribed timeframe the report on changes of significant data on the basis of which the permit had been issued (Article 26 Paragraph 2),
3) carrying out a merger, an acquisition or a division of a microcredit organization without a permit of the Agency (Article 30 Paragraph 1.).

(3) A microcredit foundation shall be penalized with a cash fine in the amount between KM 1,500 and KM 15,000 for the following misdemeanors:

1) failing to submit to the Agency within the prescribed timeframe the report on changes of significant data on the basis of which the permit had been issued (Article 36 Paragraph 2)

2) approving microcredit to related persons (Article 39 Paragraph 2),

3) using the generated surplus of revenues over expenses contrary to provisions of Article 40,

4) revenues based on owner's share in microcredit association utilize contrary to provisions of Article 43 Paragraph 2, and

5) carrying out a merger, an acquisition or a division of a microcredit organization without the permit of the Agency (Article 43 Paragraph 1).

(4) A natural, i.e. judicial person shall be penalized with a cash fine in the amount between KM 500 and KM 1,500 acting contrary to provisions of Article 39 of this Law.

(5) The responsible person within the microcredit organization shall also be penalized with a fine in the amount between KM 500 and KM 1,500 for misdemeanors referred to in Paragraphs 1, 2 and 3 of this Article.

(6) The responsible person within the legal entity shall also be penalized with a cash fine in the amount between KM 300 and KM 1,000 for misdemeanor referred to in Paragraph 4 of this Article.

Article 50

The Misdemeanor proceedings shall be executed in compliance with the Law on Misdemeanors.

VIII - TRANSITIONAL AND CLOSING PROVISIONS

Article 51

(1) Microcredit organizations and representative offices of microcredit organizations from the Federation of Bosnia and Herzegovina in Republika Srpska and from Brcko District established in compliance with the Law on Microcredit Organizations („Official Gazette of Republika Srpska”, No: 19/01) are obliged to harmonize their operations, organization and enactments with provisions of this Law within the timeframe of one year from the date of effectiveness of this Law, at the latest.

(2) Microcredit organizations and representative offices of microcredit organizations from Federation of Bosnia and Herzegovina in Republika Srpska and Brcko District that fail to harmonize their operations, organization and enactments with the provisions of this Law within the timeframe referred to in Paragraph 1 of this Article shall cease operating and shall be deleted from the registry kept by competent authorities.

Article 52

Proceedings initiated before the date of effectiveness of this Law shall be finalized in compliance with the provisions of the Law that had been in effect before coming into force of the current Law.

Article 53

In the course of a period of six months from the date of effectiveness of this Law the Agency shall within the scope of its authority issue regulation related to implementation of this Law and publish it in the "Official Gazette of Republika Srpska", including provisions on:

- 1) Conditions and procedure for issuance of a permit to perform microcredit business activities by microcredit organizations, representative office of microcredit organizations from Federation of Bosnia and Herzegovina and District Brcko in Republika Srpska, and foreign organizations,
- 2) Conditions and procedure for issuance of an approval on microcredit organization founding enactments,
- 3) Procedure of revoking a permit issued,
- 4) Definition of persons related to microcredit organizations and minimum standards for method of work of microcredit organizations with related persons,
- 5) Method of calculating and reporting on effective interest rate,
- 6) The format and contents of reports that microcredit organizations submit to the Agency,
- 7) Monitoring and supervision over microcredit organizations,
- 8) On the amount of fee charged for a procedure carried out by the Agency,
- 9) The amount and method of reserves to be earmarked by microcredit organizations for coverage of credit loss, and
- 10) Conditions and procedure for issuance of a permit for microcredit organization'

Article 54

As of the date of effectiveness of this Law, the Law on Microcredit Organizations („Official Gazette of Republika Srpska”, No: 19/01) shall become ineffective, as well as the regulation issued under that Law:

- a) The Decision on the documentation needed for approval by microcredit organizations ("Official Gazette of Republika Srpska", No: 38/01),
- b) The Decision on the documentation needed for opening representative offices of microcredit organizations having their headquarters in the Federation of Bosnia and Herzegovina ("Official Gazette of Republika Srpska", No: 38/01),
- c) The Decision on the definition of microcredit ("Official Gazette of Republika Srpska", No: 38/01 and 107/05), and
- d) The Rule Book on conditions required for issuance of approval to extend microcredit ("Official Gazette of Republika Srpska", No: 111/05).

Article 55

This Law shall come into effect on the eight day after being published in the "Official Gazette of Republika Srpska" and it shall be applied upon expiration of a period of six months after the date of its effectiveness.

Number: 01-759/06

Date: June 14, 2006

**PRESIDENT
OF THE NATIONAL ASSEMBLY**

M.Sc. Igor Radojicic

LAW
ON AMENDMENTS TO THE LAW ON MICROCREDIT ORGANIZATIONS

Article 1

In the Law on Microcredit Organizations (“Official Gazette of Republika Srpska” number 64/06) in Article 2, paragraph 2, after the word: “profit” a comma shall be added and the wording: “i.e. surplus of income over expenses”.

Article 2

After Article 16, new Articles 16a and 16b shall be added and say:

“Article 16a

(1) A microcredit organization may donate funds only from profit, i.e. surplus of income over expenses based on audited financial reports, and the same may be donated only for sports, culture, social welfare and charity purposes.

(2) A total amount of donations in a year may not exceed 10% out of the profit generated, i.e. surplus of income over expenses based on audited financial reports.

(3) A microcredit organization may not donate funds to related persons.

(4) A decision on donation shall be issued by the management board of a microcredit organization.

Article 16b

Total investments of a microcredit organization in buildings, equipment, software, shares in other legal entities and securities held to maturity shall not exceed more than 50% of its capital, without separate approval of the Agency.”

Article 3

Article 17 shall be changed and say:

“(1) In performing activities of extending micro-credits, a microcredit organization shall ensure the protection of rights and interests of beneficiaries of micro-credits.

(2) A beneficiary of microcredit, in terms of the provisions of this Law regulating protection of rights and interests of beneficiaries, shall be a physical entity who enters into an agreement with a microcredit organization for purposes not designated for beneficiary’s business or other commercial activity (hereinafter: beneficiary).

(3) A microcredit organization shall ensure the protection of rights and interests of a beneficiary by adopting and consistent implementing of general terms of operations and other acts, which must be harmonized with provisions and based on good business practices and fair attitude towards a beneficiary, adhering to the following principles of:

- a) good faith,
- b) due professional care while fulfilling obligations,
- c) equal relation among a beneficiary and microcredit organization,
- d) protection from discrimination,
- e) transparency of operations and informing,

- f) contracting obligations that are defined or definable, and
- g) beneficiary's right to complaint and indemnification.

(4) A microcredit organization shall ensure that employees, engaged in the sale of services and providing advice to beneficiaries, have appropriate qualifications, knowledge and experience, professional and personal qualities, exercise the rules of profession, act in accordance with good business practices and business ethics, respect both the personality and integrity of a beneficiary, and at his/her request, completely and accurately inform him/her on terms of service usage, and a microcredit organization shall conduct continuous training and specialization of employees engaged in the sale of services and providing advice to beneficiaries, in accordance with market necessities and requests.

(5) With respect to beneficiary's protection issues regarding agreements on micro-credits, a microcredit organization shall, in all phases of establishment and presence of relationship with a beneficiary (advertising, negotiating phase and agreement draft submission, contracting, credit usage, and in the course of contractual relationship), apply the provisions of the Law on Banks of Republika Srpska governing the field of rights and interests of beneficiaries' protection, regulating the following:

- a) adoption, implementation and advertisement of general terms of operation,
- b) informing a beneficiary in the course of negotiating phase via standard information sheet,
- c) definability of contractual obligation under loan,
- d) obligatory elements of an agreement on loan and terms for their alteration,
- e) type of interest rate, conditions under which a variable interest rate may be changed, and informing a beneficiary,
- f) assessment of credit capability,
- g) ensuring the fulfillment of credit obligations through warranty,
- h) manner and procedure of concluding an agreement on loan,
- i) making credit funds available,
- j) cancellation and prepayment of a loan,
- k) consequences of defaulted loan obligations,
- l) informing loan beneficiaries,
- m) transfer of receivables under a microcredit agreement,
- n) ensuring right to complaint and keeping records of complaints,
- o) other issues related to protection of beneficiaries' rights as defined by law.

(6) The provisions of this Law regulating the protection of beneficiaries shall be applied accordingly on other beneficiaries of micro-credits – entrepreneurs as well, who, in accordance with the regulations on craft and entrepreneurship activity perform entrepreneurship and craft business, beneficiaries of micro-credits – entrepreneurs engaged in agricultural production on a agricultural household, and beneficiaries of micro-credits – agricultural family farm holders engaged in agricultural production in accordance with the regulations on agriculture, and whose micro-credits are in the range of KM 400 to KM 10,000.

(7) The Agency shall prescribe terms and conditions of beneficiaries' rights and interests fulfillment based on loan agreements, as well as a method of microcredit organization obligation fulfillment in the procedure of a beneficiary protection, within 90 days from the date of this Law coming into force.”

Article 4

After Article 18, a new Article 18a shall be added and say:

“Article 18a

(1) While performing business operations, a microcredit organization shall meet all obligations and tasks, as well as undertake all measures and operations defined by the regulations governing the field of anti-money laundering and terrorism financing, and regulations governing the introduction and application of certain interim measures for the purpose of effective implementation of international restrictive measures.

(2) A microcredit organization shall establish a system of internal control, adopt policies and procedures for detection and prevention of transactions involving criminal activities, money laundering, financing terrorism activities and activities obstructing the introduction and application of international restrictive measures, as well as undertake activities to identify all persons entering into business relations with, in accordance with separate regulations of the Agency.

(3) A microcredit organization shall inform authorized bodies and communicate data in accordance with the regulations governing the field of anti-money laundering and terrorism financing and submit to the Agency a monthly report on the abovementioned, in the form as prescribed by the Agency within 90 days from the date of this Law coming into force.”

Article 5

In Article 21, new paragraphs 2, 3, 4, 5, 6 and 7 shall be added and say:

“(2) In performing supervision over microcredit organizations, the Agency may undertake the following measures:

- a) issue a written warning, or request the removal of illegalities and irregularities, issue a misdemeanor warrant or submit a request to initiate a misdemeanor procedure,
- b) request the undertaking of additional measures,
- c) appoint an advisor in a microcredit organization,
- d) appoint an external auditor to the charge of a microcredit organization,
- e) order a measure to prohibit the payment of dividends to shareholders, i.e. prohibit the distribution of profit to members of a microcredit association, and
- f) revoke business license.

(3) Should the Agency ascertain that a microcredit organization violates the provisions of the Agency’s decisions or the rules of forming and maintaining stipulated reserves, the Agency shall render a decision ordering additional measures, as follows:

- a) request a microcredit organization to adopt a plan of actions to meet the requirements of forming and maintaining legal reserves and loan loss coverage reserves.
- b) temporarily or permanently prohibit concluding new agreements on micro-credits, prohibit certain types of financial transactions, i.e. financial transactions with certain legal and physical entities.
- c) order a microcredit organization to provisionally suspend or dismiss a director, management members, management board, members of a microcredit organization body in charge of controlling activities, and instead appoint other persons, and
- d) request undertaking other measures prescribed by a separate regulation of the Agency,

(4) A microcredit organization shall eliminate, within the prescribed deadlines, all

defined illegalities and irregularities and act according to additional measures, and submit to the Agency the reports, documents and other evidence based on which it is evident that the defined illegalities and irregularities have been eliminated, i.e. that it has been acted in accordance with additional measures.

(5) The Agency may issue a decision to introduce an advisor in a microcredit organization if estimated that:

a) further operation of a microcredit organization might jeopardize its liquidity and solvency,

b) a microcredit organization has concealed from the Agency or authorized auditors its business books, documents, evidence or property of the microcredit organization, or refused to provide the authorized persons with access to such books,

c) a microcredit organization for which the additional measures have been ordered, failed to initiate their implementation within the prescribed deadlines, or failed to implement them at all,

d) a microcredit organization, despite the additional measures, failed to meet the requirements of forming and maintaining prescribed reserves, or failed to harmonize its operations with the Agency's decisions.

(6) By issuing a decision on advisor introduction, the Agency shall define the duration of consulting, type and scope of operation and provide obligatory instructions regarding the advisor's acting.

(7) The Agency shall prescribe criteria for advisor appointment in a microcredit organization, authorizations, terms and conditions of his/her acting, within 90 days from the date of this Law coming into force."

Article 6

In Article 25, paragraph 2, the wording: "the Law on Enterprises" shall be replaced by the wording: "the Company Law".

In paragraph 3, the wording: "the Law on Enterprises" shall be changed by the wording: "the Company Law".

After paragraph 4, a new paragraph 5 shall be added and say:

(5) In addition to the activities under Article 16 of this Law, a microcredit association may provide insurance procurement activities as well, in accordance with the regulations governing mediation in insurance".

Article 7

Article 49 shall be changed and say:

"(1) A monetary fine of KM 100,000 shall be imposed on a microcredit organization, i.e. another legal entity engaged in extending microcredit as an activity, contrary to the provision of Article 5, paragraph 1 of this Law.

(2) A monetary fine of KM 5,000 to KM 50,000 shall be imposed on a microcredit organization for a violation if it:

a) grants a microcredit contrary to the provisions of Article 4 of this Law,

b) applies a general act without obtaining a prior approval of the Agency (Article 8),

c) without the Agency's approval establishes an organizational unit subject to registration in a public registry (Article 9, paragraph 1 and 2),

d) has the head office in the Federation of Bosnia and Herzegovina or Brcko District, and establishes an organizational unit in Republika Srpska without a prior approval of the Agency (Article 10, paragraph 1),

e) apart from the main activity of extending a microcredit, enters into the registry and performs other activities contrary to Article 16, paragraph 1 and Article 25, paragraph 5 of this Law,

f) contrary to the provision of Article 16, paragraph 2 of the Law, carries out activities that do not serve and are not commonly performed alongside with the microcredit activity,

g) makes donations contrary to the provision of Article 16b of this Law,

h) makes investments contrary to the provision of Article 16b of this Law,

i) fails to disclose an effective interest rate on micro-credits (Article 18),

j) fails to act according to the Agency's order for eliminating illegalities and irregularities or fails to implement additional and other measures of the Agency (Article 21),

k) fails to submit a report to the Agency regarding any significant change of data based on which the license was issued within the prescribed deadline (Article 26, paragraph 2 and Article 36, paragraph 2),

l) carries out transaction of receiving, i.e. extending goods and services contrary to the provisions of Article 39, paragraph 1 of this Law,

m) allocates a surplus of income over expenses contrary to the provisions of Article 40 of the Law,

n) performs merger, amalgamations and division of a microcredit organization without a prior approval of the Agency (Article 31, paragraph 1 and Article 44, paragraph 1), and

o) fails to act in a manner as stipulated in Article 51a of the Law.

(3) For violations under paragraph 2 of this Article, a monetary fine of KM 2,000 to KM 10,000 shall be imposed on a responsible person in a microcredit organization.

Article 8

After Article 49, new Articles 49a and 49b shall be added and say:

“Article 49a

(1) A monetary fine of KM 3,000 to KM 30,000 shall be imposed on a microcredit organization for a violation if it:

a) fails to inform the Agency within the prescribed deadline on the establishment of organizational units not subject to entry into public registers (Article 9, paragraph 1),

b) fails to submit to the Agency the reports prescribed by Article 18a, paragraph 3 of the Law,

c) fails to inform the Agency and public in accordance with the prescribed conditions and fails to submit financial reports and audit reports to the Agency (Article 19),

d) fails to submit reports on operation to the Agency in accordance with the Agency's regulations (Article 20),

e) extends a microcredit to the related persons (Article 39, paragraph 2), and

f) uses ownership share income in a microcredit association contrary to the provisions of Article 43, paragraph 2 of the Law.

(2) For a violation referred in paragraph 2 of this Article, a monetary fine of KM 1,000 to KM 5,000 shall be imposed on a responsible person in a microcredit organization.

Article 49b

When in breach with the provisions of Article 17 of this Law, the provisions of the Law on Banks of Republika Srpska stipulating penalties for infringement governing beneficiary's protection shall be applied."

Article 9

After Article 51, a new Article 51a shall be added and say:

"Article 51a

(1) Microcredit organizations and microcredit organizations from the Federation of Bosnia and Herzegovina and Brcko District with representative offices in Republika Srpska shall harmonize their acts of operations with the provisions of this Law and regulations of the Agency no later than three months from the date of these regulations coming into force.

(2) Microcredit organizations shall harmonize the agreements on loan concluded before this Law coming into force with the provisions of Article 98ж, paragraphs 2 thru 7 and Article 98j, paragraphs 3 and 4 of the Law on Amendments to the Law on Banks of Republika Srpska regulating the definability of contractual obligation, contracting and changing of interest rate, within six months from the date of its coming into force, so that the amount of agreed variable but indefinable nominal interest rate, i.e. variable indefinable element of that rate shall not exceed its initial amount (the amount at the time of agreement conclusion).

(3) The provisions of Article 98ж, paragraphs 2 thru 7 and Article 98j, paragraphs 3 and 4 of the Law on Amendments to the Law on Banks of Republika Srpska shall be applied on all loan agreement obligations maturing after the deadline for harmonization of the agreement referred to in paragraph 2 of this Article.

(4) Microcredit organizations, within the deadline prescribed for the harmonization of the loan agreement under paragraph 2 of this Article, shall not increase the interest rate by applying contracted indefinable elements.

(5) It is prohibited for a microcredit organization to charge a special fee to a beneficiary for the harmonization of the loan agreement as stipulated in paragraph 2 of this Article, nor request additional documentation for the same purpose.

Article 10

This Law shall come into force on the eighth day from the date of its being published in the "Official Gazette of Republika Srpska".

Number: 01-1707/11

Date: 3 November, 2011

PRESIDENT OF
NATIONAL ASSEMBLY
M.Sc. Igor Radojičić