



# THE MICROFINANCE INSTITUTIONS ORDINANCE, 2001



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# THE MICROFINANCE INSTITUTIONS ORDINANCE, 2001

## ORDINANCE No. LV of 2001

[16<sup>th</sup> October, 2001]

### *An Ordinance to regulate the establishment, business and operations of microfinance institutions.*

WHEREAS it is expedient to promote the establishment of microfinance institutions for providing organizational, financial and infrastructural support to poor persons, particularly poor women, for mitigating poverty and promoting social welfare and economic justice through community building and social mobilization and to provide for matters connected therewith or ancillary thereto;

AND, WHEREAS, it is essential to regulate microfinance institutions to protect the depositors and customers and to safeguard these institutions against political and other outside interference;

AND, WHEREAS, the President is satisfied that circumstances exist which render it necessary to take immediate action;

NOW, THEREFORE, in pursuance of the Proclamation of Emergency of the fourteenth day of October, 1999, and Provisional Constitution Order No.1 of 1999, read with the Provisional Constitution (Amendment) Order No.9 of 1999, and in exercise of all powers enabling him in that behalf, the President of the Islamic Republic of Pakistan is pleased to make and promulgate the following Ordinance:—

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## PART I

### PRELIMINARY

**1. Short title, extent and commencement.**— (1) This Ordinance may be called the Microfinance Institutions Ordinance, 2001.

(2) It extends to the whole of Pakistan.

(3) It shall come into force at once.

**2. Definitions.** In this Ordinance, unless there is anything repugnant in the subject or context,—

(a) “auditor” means any person who is appointed in accordance with the provisions of this Ordinance for the audit of the accounts of a microfinance institution;

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- (b)** “Banking Companies Ordinance” means the Banking Companies Ordinance, 1962 ([LVII of 1962](#));
- (c)** “company” means a company incorporated under the Companies Ordinance, 1984 ([XLVII of 1984](#)), or any other law for the time being in force;
- (d)** “customer” means any person or group of persons availing the services of a microfinance institution;
- (e)** “deposit” means the deposit of money, repayable on demand or otherwise, accepted by a microfinance institution from the public for the purpose of providing microfinance services;
- (f)** “depositor” means a person in whose name a deposit is held by a microfinance institution;
- (g)** “licence” means the licence issued by the State Bank and the expression “licensed” should be construed accordingly;
- (h)** “member” means the member or shareholder who has contributed or subscribed to the capital of a microfinance institution;
- <sup>1</sup>**(i)** “microfinance institution” means an institution, which extends micro credit and allied services to the poor through sources other than public savings and deposits];
- <sup>2</sup>**[(ia)** “microfinance bank” means an institution licensed by State Bank under this Ordinance to establish and operate as microfinance bank;
- (j)** “microfinance services” means the financial and other related services specified in section 6, the value of which does not exceed such amount as the State Bank may, from time to time, determine;
- (k)** “poor persons” means persons who have meagre means of subsistence and whose total income <sup>1</sup>[during a year is less than such minimum limit as the State Bank may, from time to time, prescribe] or receipt during a year is less than the minimum taxable limit set out in the law relating to income-tax ;
- (l)** “prescribed” means prescribed by rules <sup>1</sup>[and regulations] made under this Ordinance;
- (m)** “specified area” means the district, province or other specified area within which a microfinance institution is licensed to operate; and
- (n)** “State Bank” means the State Bank of Pakistan established under the State Bank Act, 1956 ([XXXIII of 1956](#)).

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<sup>1</sup> Subs. by the Finance Act, 2006 (3 of 2006), s. 18 for “clause (i)”.

<sup>2</sup> New clause (ia) ins. ibid.

**3. Applications of other laws.**— (1) The provisions of this Ordinance shall be in addition to, and, save as hereinafter provided, not in derogation of, any other law for the time being in force.

(2) Save as otherwise provided in this Ordinance, the Banking Companies Ordinance and any other law for the time being in force relating to banking companies or financial institutions shall not apply to microfinance institutions licensed under this Ordinance and microfinance institution shall not be deemed to be a banking company for the purposes of the said Ordinance, the State Bank of Pakistan Act, 1956 ([XXXIII of 1956](#)), or any other law for the time being in force relating to banking companies.

(3) Save as expressly provided in this Ordinance, the provisions of this Ordinance shall have effect notwithstanding anything contained in any rules, regulations, memoranda or articles of association of a microfinance institution or in any resolution passed by such institution in its general meeting or by its Board of Directors, whether the same be applied, executed or passed before or after the commencement of this Ordinance and any provision contained in any rules, regulations, memoranda, articles or resolutions aforesaid shall, to the extent of its inconsistency become or be void and of no legal effect.

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## PART II ESTABLISHMENT AND WINDING UP

**4. Restrictions on establishment and operations.**— (1) No person, other than a company, shall be established as a microfinance institution.

(2) No microfinance institution shall commence, or carry on, the business of taking deposits unless and until such institution has been licensed in accordance with the provisions of this Ordinance.

<sup>1</sup>**[5. Name.**— (1) No person other than a licensed microfinance bank shall use with its name the words “Microfinance Bank” “MFB” or its derivatives or any words or letters which convey that it is a microfinance bank.

(2) Any person or company to whom license has not been granted under this Ordinance or the license granted has been cancelled, contravenes, or attempts to contravene or abets the contravention of sub-section (1), the chief executive by whatever name called, a director, a manager and other officer of the company, and the individual and every member of the association or body of individuals shall be deemed to be guilty of such contravention and shall be punishable with imprisonment for a term which may extend to three years or with fine which may extend to one million rupees or with both.”].

**6. Functions and powers.**— (1) A microfinance institution shall, in accordance with prudential regulations and subject to the terms and conditions of the license issued by the State Bank, render assistance to micro-enterprises and provide microfinance services in a

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<sup>1</sup> Subs. by the Finance Act, 2006 (3 of 2006), s.18 for “section 5”.