

# Rules of Engaging in Microfinance Activity



## **Chapter One**

### **General Provisions**

1. Subject to the provisions of Finance Companies Control law, promulgated by Royal Decree No. M/51 dated 13/8/1433H and its Implementing Regulation, these Rules determine the requirements of exercising microfinance activity, and shall govern finance companies that are licensed to practice Microfinance.
2. A Microfinance Company is a company that finances production activities of small businesses and craftsmen and the like, and it is licensed to exercise such activities under the Finance Companies Control Law and its Implementing Regulation as well as the Rules and Instructions issued by SAMA. The remaining terms and phrases used in these Rules shall have the meanings indicated in Article (1) of the Finance Companies Control Law and Article (1) of its Implementing Regulation unless the context indicates otherwise.
3. SAMA specifies what a microfinance company shall comply with in terms of corporate governance, internal organization, outsourcing, risk management, compliance and internal audit based on the nature and the size of the Microfinance Company's activity and the type of operations.
4. The Microfinance Company shall establish internal controls and procedures that ensure compliance with these rules and all relevant laws, regulations and instructions, and when contracting with third parties, the Microfinance Company shall ensure the compliance of all third parties with the provisions of these Rules or any related laws and regulations.
5. The Microfinance Company shall maintain adequate records to prove its compliance with these Rules and all relevant laws, regulations, instructions and take the required measures to prevent any violations of its provisions.
6. Noncompliance with these Rules is a violation of the Finance Companies Control Law and its Implementing Regulations as well as the licensing conditions and exposes the Microfinance Company to regulatory sanctions.

## **Chapter two**

### **Licensing**

7. Microfinance Companies shall be subject to the provisions of licensing finance companies stated in the Finance Companies Control Law and its Implementing Regulation, and commensurate with the nature and the size of the Microfinance Company's activity and its type of operations.

## **Chapter Three**

### **Conducting Business**

8. Microfinance shall be limited to finance production activities and assets of small businesses and craftsmen and the like. A Microfinance Company shall not offer consumer finance or exercise finance activities other than Microfinance.
9. The finance amount provided to each beneficiary of Microfinance shall not exceed fifty thousand riyals (SAR 50,000); SAMA may raise or lower such amount, based on the nature of Microfinance products taking into account the financial position of the Microfinance Company and the Market conditions.
10. The Microfinance Company shall set written policies, rules and procedures for finance in line with its activity nature, and ensure their implementation, including, as minimum, the following:
  - a. Rules and conditions for extending credit and its procedures.
  - b. Standards and procedures for assessing the economic feasibility of the activity or the production assets to be financed and the borrower's ability to repay.
  - c. Procedures to ensure the usage of the finance amount for the purpose specified in the contract.
  - d. Procedures for monitoring finance performance, and providing advice and guidance to the borrower according to the case.
  - e. Procedures and controls for collection due installments as well as procedures for dealing with delinquencies.
  - f. Measures of calculation finance cost.
11. A Microfinance Company may provide finance without collateral; or with collateral, taking into account the type and nature of this finance, in accordance with the policies and procedures of risk management approved by the Board of Directors of the Microfinance Company.
12. Without prejudice to the Finance Companies Law and its Implementing Regulation, a Microfinance Company shall not:
  - a. Exercise any activity other than microfinance.
  - b. Finance any of the related parties stated in Clause (1) of Article (56) of the Implementing Regulations for the Finance Companies Control Law.

13. A Microfinance Company shall establish a code of conduct, approved by the Board of Directors and provide SAMA with a copy of it. This code shall include principles, policies and clear controls for business ethics to deal with the beneficiaries, especially on extension of credit and installment collection practices. The Microfinance Company should take what is needed to ensure the compliance with its code of conduct in line with the relevant Rules, Regulations and Instructions.
14. SAMA specifies the provisions that shall be set by Microfinance companies to cover potential losses and risks.

## **Chapter Four**

### **Entry into Force**

15. These Rules shall be effective from the date of issuance.