

THE A-Z OF LICENSING MICROFINANCE BANK

The steps to follow in applying for a microfinance bank licence are as shown below:

Stage 1: Approval of Name

- a) Contact the Central Bank of Kenya at an early stage for a preliminary meeting to discuss licensing requirements and related issues.
- b) Propose and book, in descending order of preference, at least three business names with the Registrar of Companies and Business Names.
- c) Submit the proposed names to the Central Bank in descending order of preference accompanied by a brief concept paper on the proposed Microfinance Bank, including evidence of sources and availability of capital. This should be done before incorporation of the proposed entity as a company limited by shares.
- d) The proposed name must incorporate the words “Microfinance Bank” e.g. XYZ Microfinance Bank Limited
- e) The name approval is valid for 12 months from the date it’s granted by the Central Bank within which you should have received a licence to carry out microfinance bank business.

Stage 2: Application for Licence

- a) Complete and submit a certified Application Form [Form 1 of the First Schedule to the Microfinance (Deposit Taking Microfinance Institutions) Regulations 2008] to CBK accompanied by all supporting documents, including:
 - i. Certified copy of the Certificate of Incorporation.
 - ii. Certified copy of the tax Personal Identification Number (PIN) certificate.
 - iii. Certified copy of the registered Memorandum and Articles of Association indicating core capital (at least Kshs 20 million or Kshs 60 million for community and nationwide microfinance bank business, respectively). For community microfinance bank business, indicate the area of operation as District or Division; if operating in a city, attach the supporting Government administrative map(s).
 - iv. Verified official notification of the company’s registered place of business, including the prospective places of business (Head Office, branches, agency and outlets, if any).
 - v. Pay a non-refundable application fee of Kshs 5,000 to the Central Bank by Bankers cheque or by such other mode of payment as the Central Bank may prescribe.
 - vi. A declaration witnessed by an advocate or Commissioner of Oaths indicating that the proposed entity has no existing scheme of arrangement with its creditors.
- b) Provide evidence of minimum core capital (Kshs 20 million and Kshs 60 million for a “community” and “nationwide” microfinance bank business, respectively):
 - i. Evidence should be reflected in a bank statement of a licensed bank indicating the earmarked funds (attach letter from the bank) and/or Government of Kenya Treasury Bills and Bonds not under lien.

- ii. Evidence should either be in the name of the company and/or the promoters/shareholders of the company.
- iii. The promoters/shareholders should give the Central Bank authority to verify the authenticity of the bank statement directly from the bank.
- iv. The promoters/shareholders should provide the distribution or allocation (ultimate beneficiaries, citizenship, amount and percentage) of core capital to each individual promoter/shareholder and/or company, indicating significant shareholders/promoters (owning at least 10% of the share capital).
- v. Certified statements indicating that the entity and each of the shareholders and officers are tax compliant. The current Tax Compliant Certificate should be provided.

c) Prepare and submit a comprehensive feasibility study and business plan covering but not limited to:

- i. executive summary;
- ii. background;
- iii. governance structure including ownership;
- iv. audited financial statements, where applicable and projected financial statements for at least three years;
- v. SWOT analysis;
- vi. economic and financial markets environment;
- vii. financial sector structure and environment;
- viii. institutional analysis;
- ix. potential market survey;
- x. scope of proposed business activities and marketing strategy;
- xi. capital, liquidity and portfolio quality;
- xii. proposed projected financial statements and analysis;
- xiii. legal and regulatory compliance function, and
- xiv. proposed infrastructure and internal controls;
- xv. High level outlines of the proposed Risk management policies and procedures and internal control systems manual.

d) Duly complete and submit the “Fit and Proper Forms” for all significant shareholders (at least 10% shareholding) and proposed directors accompanied by supporting documentation (certified) including:-

For individual natural persons:

- i. Curriculum Vitae and certified copies of academic and professional certificates.
- ii. Evidence and disclosure of the source of funds e.g. certified copies of bank statements, fixed deposits and/or government securities.
- iii. Certified copies of National Identity Card and Personal Identification Number (PIN) certificate.
- iv. Total number and the percentage of shares to be acquired and evidence of the consideration given or to be given for the same.
- v. Four recent colour passport size photographs, of which at least one must be certified.

- vi. Names of three independent referees who have known the proposed shareholder/officer for at least 5 years, giving detailed contacts including postal addresses, e-mail and telephone numbers.
- vii. A recent (i.e. not more than three months since issuance) credit report from a licensed credit reference bureau.
- viii. A declaration witnessed by an advocate indicating that none of the funds the shareholder seeks to invest are from proceeds of crime as required in Section 4.6 (a) of the Application Form (Significant shareholders)
- ix. An affidavit that none of the proposed directors or significant shareholders holds or owns a similar position in any other microfinance bank in Kenya (Directors) licenced under the Microfinance Act, 2006.

For Companies, Firms or Other Corporate Entities Incorporated in Kenya:

- i. Certified copy of the Certificate of Incorporation of the company or Certificate of Registration of Business or other entity.
- ii. Certified copy of the Memorandum and Articles of Association, Partnership Agreements or Constitution of the Association/body.
- iii. Certified copies of the organization's Personal Identification Number (PIN) certificate.
- iv. Resolution of the Board of Directors or General Meeting authorizing the investment.
- v. Where the entity is regulated, the name and full contact details of the Regulator; Letter of no objection from the Regulator and a certified copy of licence to operate.
- vi. For entities that are already carrying on business other than that of a microfinance bank, audited financial statements for at least the last three years or since inception if the business has been carried on for less than three years.
- vii. Evidence of availability and source of funds e.g. certified copies of bank statements, fixed deposit receipt, government securities.
- viii. Total number of, and the percentage of, shares to be acquired and the consideration for the same.
- ix. Ultimate beneficiaries of shares to be acquired.

Transforming entities/organizations incorporated in Kenya will provide the following additional requirements:

- i. Board and Annual General meeting resolution approving the transformation and the proposed investment (Business Plan approved by the board).
- ii. Copies of audited financial statements for at least the last three years preceding the application, including the auditor's report, if applicable. If the entity has been in operation for less than three years, submit audited financial statements for the years since inception.
- iii. A due diligence report prepared by an external audit firm on the operational and financial performance, legal risks detailing a review of the adequacy of the management information system and internal control systems.
- iv. The Applicant, upon receiving the name approval may apply before incorporating the new company by using the old name in brackets transforming to the new name

e.g. XYZ Limited may use the name XYZ Limited (in Transformation to XYZ Microfinance Bank Limited) until it is licensed. No person shall use the approved name in its operations or engage in microfinance bank business until it receives a licence from the Central Bank.

e) Foreign Companies

Foreign companies intending to set up a local subsidiary will be required to submit further information including but not limited to:

- i. A copy of the board resolution authorizing the entity to microfinance bank business in Kenya, and the designated persons who will represent the business in connection therewith.
- ii. Historical background of the foreign entity.
- iii. Signed declaration by the board of directors to adhere to the Microfinance Act and Regulations issued thereunder and other relevant Kenyan laws at all times during the validity of the licence.
- iv. Endorsement letter (or a letter of no objection) from the home supervisory authority.

Stage 3: Letter of Intent

Upon assessment and fulfillment of all the requirements in stage two, the Central Bank will issue a Letter of Intent, which is an approval in principle and advises the applicant on the next steps and requirements to be fulfilled before issuance of a licence and approval to commence operations, including:

- a) payment of licence fees to the Central Bank by bankers cheque or such other mode of payment that the Central Bank may prescribe (Kshs 150,000 for nationwide microfinance bank, and Kshs 100,000 for community microfinance bank)
- b) preparation of operating premises to meet prescribed standards [see inspection checklist in Form 4 of the First Schedule to the Microfinance (DTM) Regulations 2008] in readiness for inspection by the Central Bank
- c) completion and submission of the “Fit and Proper” Forms for key senior managers (to be guided by the Central Bank) accompanied by all the supporting documentation, including but not limited to the following:
 - i. Curriculum Vitae and any supporting documentation
 - ii. At least three referees who should have known the proposed senior officer for at least five years and who should not be related to the officer, giving detailed contacts including their e-mail addresses and telephone numbers.
 - iii. Current and any previous employers and occupation(s) of the proposed officers giving detailed contact addresses including e-mail and telephone numbers.
- iv. A recent (issued within the last three months preceding the date of submission) credit report from a licensed credit reference bureau.
- v. Two colour passport-size photographs and copies of identification documents (ID card and/or Passport) and PIN certificate. These should be certified by a registered Commissioner of Oaths. For non-Kenyan citizens, documents

- originally issued outside Kenya may be notarized in the jurisdiction in which the said documents were issued.
- vi. A declaration that none of the proposed senior officers holds a similar position in another Microfinance bank(s) licensed under the Microfinance Act.
- d) preparing and putting in place the proposed management information system (MIS) and other institutional structures required to conduct the microfinance bank business including but not limited to the following:
- i. Governance structures: Board, Senior Management and Committees.
 - ii. Deposit mobilization strategies/plans and marketing methodologies.
 - iii. Management Information Systems and infrastructure.
 - iv. Operations manuals – lending and credit administration; human resource development; investment policy; liquidity and funds management policies; accounting procedures; Management Information System; internal audit and controls; capital, planning and budgeting; Know Your Customer (KYC) requirements, operations and assets manuals.
 - v. Risk management policies and internal control systems.
 - vi. A satisfactory inspection, upon invitation thereto, by the Central Bank, of the applicant's proposed operating premises to examine compliance with the standards and operational readiness of the applicants to commence the business of the microfinance bank .
 - vii. In this stage, the Central Bank shall undertake a due diligence evaluation on the proposed management, an assessment on the adequacy of the MIS, internal controls and procedures.

Stage 4: Issuance of Licence

The Central Bank, if satisfied that the applicant has met all the requirements of the above three stages, may then issue a licence; the Central Bank will duly specify the institution by placing a notice in the Kenya Gazette, thereby legally authorizing the applicants to commence microfinance bank business.