



## **THE A-Z OF LICENSING A DEPOSIT TAKING MICROFINANCE INSTITUTION**

The following are the key steps in the licensing process of deposit taking microfinance institutions under the Microfinance Act and regulations issued thereunder:-

### **1. Stage 1: Approval of Name**

- a) Propose and book at least three business names with the Registrar of Companies and Business Names
- b) Submit the proposed names to the Central Bank in order of priority before incorporation of the company as a company limited by shares
- c) The proposed name must incorporate the words 'Deposit Taking Microfinance' or the acronym "DTM" in the proposed business name e.g. XYZ Deposit Taking Microfinance Limited or XYZ DTM Limited

### **2. Stage Two: Application for Licence**

- a) Complete and Submit a certified Application Form (Form 1 of the First Scheduled) to CBK accompanied by all supporting documents, including –
  - i. A 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 KSh.20 million or KSh.60 million for community and nationwide deposit-taking Microfinance business, respectively). For community deposit-taking microfinance business, indicate the area of operation as District or Division, if operating in a city and attached 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 KSh.5,000 to the Central Bank by Bankers cheque
- b) Provide evidence of minimum core capital (KSh.20 million and KSh.60 million for a 'community' and 'nationwide' deposit-taking microfinance business, respectively)
- i. Evidence should be reflected in a bank statement of a licensed bank indicating the isolated funds (attached 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 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. Summary of Financial and Operational Performance, if applicable
  - v. Comprehensive Environmental Analysis
  - vi. Economic and Financial Markets Environment
  - vii. Financial Sector Structure and Environment
  - viii. Institutional Analysis
  - ix. Potential Market Analysis
  - x. Scope of Business Activities and Marketing Strategy
  - xi. Capital, Liquidity and Portfolio Quality
  - xii. Projected Financial Statements and Analysis
  - xiii. Legal and Regulatory Compliance
  - xiv. Infrastructure and Internal Controls
- 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. Personal Statement of Affairs to cover at least the last three years
- iii. Evidence of, and disclose source of, funds e.g. certified copies of bank statements, fixed deposit receipt and government securities
- iv. Certified copy of National Identity Card and Personal Identification Number (PIN) certificate
- v. Total number and the percentage of shares to be acquired
- vi. Four recent colour passport size photographs, at least one must be certified
- vii. Names of three independent referees giving detailed contacts including postal addresses, e-mail and telephone numbers

*For Companies, Firms or Other Corporate Entities:*

- 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 copy 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 addresses of the Regulator; Letter of no objection from the Regulator and a certified copy of licence to operate
  - vi. Audited Financial Statements for at least the last three years
  - vii. Evidence of, and disclose 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
  - ix. Ultimate beneficiaries of shares to be acquired
- e) Transforming entities/ organizations will provide the following additional requirements, including –
- i). Board and Annual General meeting resolution approving the transformation and the proposed investment (Business Plan approved by the board)
  - ii). Copies of at least the last three years audited financial statements preceding the application, including the auditor's report, if applicable
  - 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 once it has received 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 DTM Limited or XYZ Deposit Taking Microfinance Limited) until it is licensed. No person shall use the approved name in its operations or engage in the deposit-taking business until it receives a licence from the central Bank.
- f) 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 invest in the deposit-taking 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 Act and Regulations issued thereunder and other relevant Kenyan Laws at all times during the validity of the licence
- iv). Endorsement letter from the home supervisory authority

### **3. Stage Three: Letter of Intent**

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

- a) Pay licence fees to the Central Bank by banker's cheque
- b) Preparation premises to meet prescribed standards and seek the Central Bank approval/ licence before commencement of operations. All branch premises must be inspected by the Central Bank before approval/ licensing
- c) Duly complete and submit 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 –
  - i. Curriculum Vitae and any documentation to support the application

- ii. At least three referees giving detailed contact address, e-mail and telephone
  - iii. Previous employers and business of the proposed officers giving detailed contact address, e-mail and telephone
  - iv. Certified photographs and copies of identification documents (ID card and/or Passport) and PIN certificate by a registered commissioner of oaths. If they are foreigners, documents need to be certified by notaries of their jurisdictions
  - v. Submit a declaration that none of the directors owns or holds a similar position in another Micro Finance Institution (s)
- d) Preparing and put in place management information system and other institutional structures required to conduct the deposit-taking business including but not limited to –
- 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) and operations and assets manuals
  - v. Risk management policies and internal control systems

**NOTE:** The Central Bank shall undertake a due diligence on the management and an assessment on the MIS and internal controls and procedures.

#### **4. Stage Four: Issuance of Licence**

The Central Bank, if satisfied that the Applicant has met all the requirements, may issue a licence to commence the deposit-taking business

***All license applications and correspondences with the Central Bank should be addressed to –***

Director, Bank Supervision Department

Central Bank of Kenya

P.O. Box 60000 - 00200

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