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DEPOSIT TAKING MICROFINANCE CIRCULAR No. 1 OF 2011

TO ALL CHIEF EXECUTIVE OFFICERS OF DEPOSIT TAKING MICROFINANCE INSTITUTIONS

GUIDELINE ON THE APPOINTMENT AND OPERATIONS OF THIRD PARTY AGENTS BY DEPOSIT TAKING MICROFINANCE INSTITUTIONS (DTMs) – (CBK/DTM/MFG/1)

As part of the objectives to achieve the aspirations of Vision 2030, the Government of Kenya is continuing with its initiatives to enhance access and penetration of cost effective financial services to the Kenyan populace.

Towards this end, the Central Bank of Kenya (CBK) first rolled out the agency model in the Banking industry in 2010. Since its roll out, there has been phenomenal growth in the use of this channel. CBK has to date approved 8,937 agents to provide banking services on behalf of institutions licensed under the Banking Act. Through these agents, customers of banking institutions have undertaken 5.92 million transactions valued at Kshs. 28.7 billion.

Given the success of this model in the Banking sector, and in order to enhance the inclusivity of the financial system, the Central Bank sought to extend the agency model to the microfinance sector. In this regard, the Central Bank submitted amendments to the Microfinance Act 2006 through the Finance Act 2010 to allow for deposit taking microfinance institutions to increase outreach through the agency model.

The agency model will extend the footprint of DTMs by allowing them to enter into strategic alliances with contracted third parties to provide specified deposit taking business on their behalf. The third parties to be contracted by the DTMs will be approved by the Central Bank of Kenya and will include both financial and non-financial entities.

Sections 2 and 48(2A) of the Microfinance Act 2006 empower the Central Bank of Kenya to issue guidelines to be adhered to by institutions in order to maintain a stable and efficient deposit taking microfinance system. In exercise of these powers, the Central Bank has formulated the 'Guideline on the Appointment and Operations of Third Party Agents by Deposit Taking Microfinance institutions'. This Guideline prescribes the manner in which

specified deposit taking microfinance services will be conducted by agents. The Guideline will also ensure that the introduction of third parties in the DTM business will not compromise the safety, soundness and supervision of the DTM sector.

The purpose of this circular therefore, is to issue the 'Guideline on the Appointment and Operations of Third Party Agents by Deposit Taking Microfinance institutions (CBK/DTM/MFG/1)' to all deposit taking microfinance institutions. The Guideline shall become effective on 2nd January 2012. The Guideline is currently available on the Central Bank of Kenya website at: <http://www.centralbank.go.ke/>. Institutions should note that breaches of this Guideline will attract remedial measures as specified in the Guideline and the Microfinance Act.



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