

PROCEDURE FOR LICENSING DEPOSIT TAKING MICRO FINANCE INSTITUTIONS

The following key steps are followed in licensing deposit taking MFI's:-

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 preference before incorporation of the proposed entity as a company limited by shares.
- c) The proposed name must incorporate the words “Deposit Taking Microfinance” or the acronym “DTM” e.g. XYZ Deposit Taking Microfinance Limited or XYZ DTM Limited.

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 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, 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 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 (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 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 impact analysis;
 - vi. economic and financial markets environment;
 - vii. financial sector structure and environment;
 - viii. institutional analysis;
 - ix. potential market survey;
 - 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, and
 - 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. 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.
- v. Four recent colour passport size photographs, of which at least one must be certified.
- vi. Names of three independent referees giving detailed contacts including postal addresses, e-mail and telephone numbers.

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 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 :-
- 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 Microfinance 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.

Stage 3: Letter of Intent

Upon assessment and fulfilment of all the 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) payment of licence fees to the Central Bank by banker's cheque.(Kshs 150,000 for nationwide DTM, and Kshs 100,000 for community DTM)
- 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 shareholders, directors and 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 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 the proposed officers are not Kenyan citizens, the submitted documents should be certified by notaries of the officers' original jurisdictions.
 - v. A declaration that none of the shareholders/directors/managers owns or holds a similar position in another Micro Finance Institution(s) licensed under the Banking Act.
- d) Preparing and putting in place the proposed management information system and other institutional structures required to conduct the deposit-taking 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) and 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 deposit-taking microfinance institution.

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 the deposit-taking microfinance business.