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CLERK-AT THE-TABLE: Mr Shitsuka

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THE NATIONAL ASSEMBLY

THIRTEENTH PARLIAMENT – FIFTH SESSION – 2026

DIRECTORATE OF DEPARTMENTAL COMMITTEES

DEPARTMENTAL COMMITTEE ON FINANCE AND NATIONAL PLANNING

REPORT ON:

THE CONSIDERATION OF THE MICROFINANCE BILL (NATIONAL ASSEMBLY BILL NO. 9 OF 2026)

The Directorate of Departmental Committees
Clerk's Chambers
Parliament Buildings
NAIROBI

NOVEMBER 2026

TABLE OF CONTENTS

LIST OF ABBREVIATIONS AND ACRONYMS iii

ANNEXURES iv

CHAIRPERSON'S FOREWORD v

CHAPTER ONE 1

1 PREFACE 1

1.1 ESTABLISHMENT AND MANDATE OF THE COMMITTEE 1

1.2 COMMITTEE MEMBERSHIP 2

1.3 COMMITTEE SECRETARIAT 4

2.0 OVERVIEW OF THE MICROFINANCE BILL (NATIONAL ASSEMBLY BILL NO. 9 OF 2026) 5

2.1 BACKGROUND 5

2.2 SUMMARY OF LEGAL PROVISIONS 5

CHAPTER THREE 12

3.0 PUBLIC PARTICIPATION AND STAKEHOLDER ENGAGEMENT ON THE BILL 12

3.1 SUBMISSIONS FROM STAKEHOLDERS 12

CHAPTER FOUR 56

4 COMMITTEE OBSERVATIONS 56

CHAPTER FIVE 57

5 COMMITTEE RECOMMENDATION 57

LIST OF ABBREVIATIONS AND ACRONYMS

AG	-	Attorney General and Department of Justice
CBK	-	Central Bank of Kenya
COK	-	Constitution of Kenya
ICPAK	-	Institute of Certified Public Accountants of Kenya
IPF	-	Institute of Public Finance
LSK	-	Law Society of Kenya
MP	-	Member of Parliament
OAG	-	Office of the Auditor General
ODM	-	Orange Democratic Movement
UDA	-	United Democratic Alliance

ANNEXURES

Annexure 1: Adoption Schedule
Annexure 2: Adoption Minutes
Annexure 3: The Microfinance Bill (National Assembly Bill No. 9 of 2026)
Annexure 4: Advertisement inviting the public to submit memoranda on the Bill and attend Public Hearings in various Counties.
Annexure 5: Letter from the Clerk of the National Assembly inviting relevant stakeholders to attend the public participation forum.
Annexure 6: Memoranda by Stakeholders

CHAIRPERSON'S FOREWORD

This Report contains the proceedings of the Departmental Committee on Finance and National Planning on its consideration of the Microfinance Bill (National Assembly Bill No. 9 of 2026). The Bill was published in the Kenya *Gazette* on 10th March 2026 and read a First Time on 28th May 2026. The Bill was thereafter committed to the Committee for consideration and tabling of the report to the House pursuant to Standing Order 127.

The Bill seeks to provide a safe and sound environment for the Microfinance Banks to meet the evolving needs of the consumers they serve. This is in line with section 4(2) of the Central Bank of Kenya (CBK) Act, which mandates CBK to foster the liquidity, solvency and proper functioning of a stable market-based financial system. The Bill also seeks to provide for the microfinance bank licensing process and classes of microfinance bank business.

Further, the Bill seeks to provide for grounds and procedure for the revocation of a microfinance bank's license, restrictions on the ownership of a microfinance bank's share capital, and the process of amalgamation, acquisition and transfer of assets and liabilities of microfinance banks.

In compliance with Article 118 (1) (b) of the Constitution and Standing Order 127(3), the Clerk of the National Assembly placed an advertisement in the print media on 4th June 2026. In addition, the Clerk of the National Assembly, vide letter Ref. No. NA/DDC/F&NP/2026/101, NA/DDC/F&NP/2026/102, NA/DDC/F&NP/2026/103, and NA/DDC/F&NP/2026/104 dated 8th July 2026 invited key stakeholders to submit views on the Bill and attend a public participation forum from Tuesday, 21st July 2026 to 23rd July 2026. The memoranda were to be received on or before Tuesday, 21st July 2026 at 5.00 pm (East African Time).

The Committee is grateful to the Offices of the Speaker and Clerk of the National Assembly for the logistical and technical support accorded to it during its consideration of the Bill. Similarly, I wish to express my appreciation to the Honourable Members of the Committee and the Committee Secretariat who made invaluable contributions towards the preparation and production of this report.

On behalf of the Departmental Committee on Finance and National Planning and pursuant to the provisions of Standing Order 199(6), it is my pleasure to report that the Committee has considered the Microfinance Bill (National Assembly Bill No. 9 of 2026) and wish to report to this august House with the recommendation that the House **approves** the Bill with amendments.

Hon. FCPA. Kuria Kimani, CBS, M.P
Chairperson, Departmental Committee on Finance and National Planning

CHAPTER ONE

1 PREFACE

1.1 ESTABLISHMENT AND MANDATE OF THE COMMITTEE

1. The Departmental Committee on Finance and National Planning is one of twenty departmental committees of the National Assembly established under **Standing Order 216** whose mandate pursuant to **Standing Order 216 (5)** is as follows:

    a) *To investigate, inquire into, and report on all matters relating to the mandate, management, activities, administration, operations and estimates of the assigned ministries and departments;*
    b) *To study the programme and policy objectives of ministries and departments and the effectiveness of the implementation;*
    c) *To, on a quarterly basis, monitor and report on the implementation of the national budget in respect of its mandate;*
    d) *To study and review all legislation referred to it;*
    e) *To study, assess and analyse the relative success of the ministries and departments as measured by the results obtained as compared with their stated objectives;*
    f) *To investigate and inquire into all matters relating to the assigned ministries and departments as they may deem necessary, and as may be referred to them by the House;*
    g) *To vet and report on all appointments where the Constitution or any law requires the National Assembly to approve, except those under Standing Order 204 (Committee on Appointments);*
    h) *To examine treaties, agreements and conventions;*
    i) *To make reports and recommendations to the House as often as possible, including recommendations of proposed legislation;*
    j) *To consider reports of Commissions and Independent Offices submitted to the House pursuant to the provisions of Article 254 of the Constitution; and*
    k) *To examine any questions raised by Members on a matter within its mandate.*

2. The Second Schedule to the National Assembly Standing Orders assigns the Committee the mandate to consider matters in relation to public finance, public audit policies, monetary policies, financial institutions, economy, investment policies, competition, banking, insurance, national statistics, population, revenue policies including taxation, national planning and development, digital finance, including digital currency.
3. In executing its mandate, the Committee oversees the following Ministries/Departments:

a) The National Treasury.
b) State Department for Economic Planning.
c) State Department for Public Investments and Asset Management.
d) The Commission on Revenue Allocation (CRA)
e) Office of the Controller of Budget

1.2 COMMITTEE MEMBERSHIP

4. The Departmental Committee on Finance and National Planning was constituted by the House on 27th October 2022 and reconstituted on Wednesday, 5th March 2025 and comprises the following Members:

Chairperson
Hon. FCPA Kuria Kimani, CBS, MP
Molo Constituency
UDA Party

Vice-Chairperson
Hon. (Amb.) FCPA Langat Benjamin Kipkirui, CBS, MP
Ainamoi Constituency
UDA Party

Members

Hon. Peter Kaluma, CBS, MP
Homa Bay Town Constituency
ODM Party

Hon. Sunkuyia R. George, MP
Kajiado West Constituency
UDA Party

Hon. FCPA Oyula Joseph H. Maero, MP
Butula Constituency
ODM Party

Hon. Dr. Gathoni Wamuchomba, HSC, MP
Githunguri Constituency
UDA Party

Hon. Mboni David Mwalika, MP
Kitui Rural Constituency
WDM Party

Hon. Sheikh Umulkheir Kassim, MP
Mandera County
UDM Party

Hon. Okuome Adipo Andrew, MP
Karachuonyo Constituency
ODM Party

Hon. (Dr.) Shadrack Mwiti, MP
South Imenti Constituency
Jubilee Party

Hon. Chiforomodo Munga, MP
Lunga Lunga Constituency
UDM Party

Hon. (Dr.) Ariko John Namoit, MP
Turkana South Constituency
ODM Party

Hon. CPA Rutto Julius Kipletting, MP
Kesses Constituency
UDA Party

Hon. Machele M. Soud, MP
Mvita Constituency
ODM Party

Hon. Paul Biego, MP
Chesumei Constituency
UDA Party

1.3 COMMITTEE SECRETARIAT

5. The Committee is facilitated by the following staff:

Ms. Tracy Chebet
Principal Clerk Assistant II

Ms. Jennifer Ndeto
Deputy Director Legal Services

Mr. Benson Kamande
Clerk Assistant II

Ms. Winfred Kambua
Clerk Assistant II

Mr. Salem Lorot
Senior Legal Counsel

Mr. Eugene Luteshi
Audio Officer II

Ms. Nelly W. Ondieki
Research Officer II

Mr. George Ndenjeshe
Fiscal Analyst II

Mr. James Macharia
Senior Media Relations Officer

Ms. Joyce Wachera
Hansard Reporter II

Mr. Benson Muthuri
Assistant Serjeant-At-Arms

Mr. Jared Onyancha
Protocol Officer

Mr. Allan Ngugi
Administrative Officer II

Ms. Penninah Simiren
Legal Counsel I

Ms. Emily Winny Akinyi
Hansard Officer III

CHAPTER TWO

2.0 OVERVIEW OF THE MICROFINANCE BILL (NATIONAL ASSEMBLY BILL NO. 9 OF 2026)

2.1 BACKGROUND

6. The Microfinance Bill (National Assembly Bill No. 9 of 2026) is a National Assembly Bill sponsored by the Leader of Majority Party of the National Assembly. It was published on 10th March 2026 and was read for a First Time on 28th May, 2026. It was then committed to the Departmental Committee on Finance and National Planning for its consideration and tabling of its report to the House pursuant to Standing Order 127.

2.2 SUMMARY OF LEGAL PROVISIONS

Panoramic view of the Bill

7. The Bill contains 8 parts and 63 clauses, majorly providing for provisions on the regulation of microfinance business in Kenya.

Application of the Bill

8. **Clause 3** of the Bill provides for the application of the Bill, which include—
   (a) microfinance bank business; and
   (b) such non-deposit taking business as the Cabinet Secretary may specify.

   Further, it provides that the Bill shall **not apply** to—
   (a) a bank, a financial institution or a mortgage finance company licensed under the Banking Act, Cap. 488 except as may be provided in the said Act;
   (b) a building society registered under the Building Societies Act, Cap. 489;
   (c) the Kenya Post Office Savings Bank established under the Kenya Post Office Savings Bank Act, Cap. 493B;
   (d) a Sacco society registered as a co-operative society under the Co-operative Societies Act or licensed under the Sacco Societies Act, Cap 490B; and
   (e) a mortgage refinance company licensed under the Central Bank of Kenya Act, Cap. 491.

Licensing Provisions

9. **Clause 4** of the Bill prohibits a person from carrying out microfinance bank business without a licence. A person (excluding an agent acting on behalf of an institution) in contravention of the provision shall be liable to a fine not exceeding 5million shillings or imprisonment for a term not exceeding 3 years or to both.

10. **Clause 5** of the Bill provides that an application for a licence to carry out microfinance bank business shall be made to the Central Bank.

11. **Clause 6** of the Bill provides for factors to be considered by the Central Bank before issuance of licence—

    (a) the financial condition and history of the applicant;
    (b) the suitability of the persons proposed to manage or control the applicant;
    (c) the true identity and background of the ultimate beneficiaries;
    (d) the proposed organizational and shareholding structure of the applicant;
    (e) the organizational and shareholding structure of the group of which the applicant forms a part or intends to form a part and whether the group structure will hinder effective supervision of the applicant;
    (f) the adequacy of its capital structure and earning prospects;
    (g) the risk management framework to be put in place; and
    (h) viability of the business.

12. In comparison, section 5(2) of the Microfinance Act, Cap. 493C the applicant is required to undertake a feasibility study comprising of several requirements and submit to the Central Bank for consideration for issuance of licence.

13. **Clause 7** of the Bill provides that the Central Bank may refuse to grant a licence to an applicant who does not meet the requirements and shall notify the applicant the reasons in writing.

14. **Clause 8** of the Bill provides that the Central Bank may prescribe different requirements for microfinance institutions relating to—
    (a) licensing;
    (b) operations;
    (c) fees payable;
    (d) reporting obligations; or
    (e) any other matter as the Central Bank may deem necessary.

15. In comparison, section 7 of the Microfinance Act, Cap. 493C provides that the Cabinet Secretary may prescribe categories of deposit-taking business based on geographical, administrative or such other requirements.

16. **Clause 9** of the Bill provides that the Central Bank may, without a warrant, enter any premises and examine the books, accounts, records, equipment, computer systems, software or fixtures of any person believed to be carrying out microfinance bank business contrary to the provisions of the Act. In comparison, section 8 of the Microfinance Act, Cap. 493C provides that the Central Bank is required to have a warrant issued by the High Court before carrying out any inspection.

17. The Bill further, makes it an offence for any person not cooperating in the conduct of inspection, with the penalty upon conviction being a term of imprisonment not exceeding 3 years or a fine not exceeding 5 million shillings.

18. **Clause 10** of the Bill provides for the revocation of licence by the Central Bank. The conditions proposed in the Bill have been expounded as opposed to those in section 9 of the Microfinance Act, Cap. 493C they include where an institution—

    (a) has failed to commence business within 12 months from the date of the licence;
    (b) voluntarily requests for revocation;
    (c) ceases to carry out microfinance bank business;
    (d) is wound up, liquidated or otherwise dissolved;
    (e) is conducting business in a manner detrimental to the interests of its depositors or the public;
    (f) has been amalgamated with another company or has been sold or its assets or liabilities have been transferred to another company without the approval of the Central Bank;
    (g) has failed to comply with any of the conditions in the licence or to take any remedial measures as directed by the Central Bank;
    (h) has contravened any of the provisions of this Act or any regulations, or guidelines made thereunder;
    (i) has failed to pay the annual fees within the prescribed time;
    (j) has provided false or misleading information when applying for a licence;
    (k) has failed to pay any monetary penalty imposed by the Central Bank; or
    (l) has materially misrepresented its financial condition, ownership, management, operations or other facts material to its business to the Central Bank or the general public.

19. Further, the Bill provides that prior to the Central Bank revoking a licence, it shall give an institution not less than twenty-eight days' notice to show cause why the licence should not be revoked.

20. **Clause 11** of the Bill provides for restriction of a person on ownership of share capital of more than 25% either directly or indirectly with exclusion of—
    (a) another institution;
    (b) a bank or mortgage finance company licensed under the Banking Act;
    (c) the Government of Kenya or the Government of a foreign sovereign state;
    (d) a state corporation within the meaning of the State Corporations Act;
    (e) a foreign company which is licensed to carry on the business of an institution or bank in its country of incorporation; or
    (f) a non-operating holding company approved by the Central Bank.

21. **Clause 12** of the Bill provides for amalgamation, acquisition and transfer of assets and liabilities. The Bill provides that the Central Bank has to approve in writing any of the above transactions for it to have legal force.

22. **Clause 13** of the Bill provides for the minimum capital requirements. The Bill proposes to increase the core capital to at least 250 million shillings to be realized by within 5 years of the commencement of the Act. The Schedule of the Microfinance Act provides for a core capital of at least 60 million shillings or in the case of a deposit-taking business of a category prescribed for the purposes of the subparagraph under section 7, a core capital of at least 20 million Kenya shillings.

23. **Clause 14** of the Bill provides that the Central Bank may prescribe the minimum ratios which shall be maintained by institutions and their groups as between their core capital and total capital on one hand and their assets.

24. **Clause 15** of the Bill provides that an institution shall, always, maintain such minimum holding of liquid assets as may be prescribed by the Central Bank. Unlike the Bill, section 12(3) of the Microfinance Act, makes it an offence to any institution that does not comply with the requirements within such period as the Central Bank may prescribe, with a penalty interest charge not exceeding 1% of the amount of the deficiency, for every day during which the offence continues.

25. **Clause 16** of the Bill provides that an institution shall at all times take measures to identify, assess, manage, monitor and control all risks relating to its business, and shall comply with such risk management requirements as may be prescribed by the Central Bank.

26. **Clause 17** of the Bill provides that the Central Bank may specify places of business that may either require approval or notification of the Central Bank. Unlike the Bill, section 13 of the Microfinance Act makes it an offence for a person who contravenes this provision to a fine not exceeding one hundred thousand shillings, or to imprisonment for a term not exceeding three years, or to both.

27. **Clause 18** of the Bill provides for prohibited activities of institutions such as not acquiring or holding, directly or indirectly, any part of the share capital of where the value of the institution's interest would exceed in the aggregate 25% of the core capital of the institution.

28. **Clause 19** of the Bill provides that no institution shall pay dividends on its shares or make any other form of distribution to its shareholders until all its capitalized expenditure has been written off and provision has been made for bad and doubtful debts.

29. **Clause 20** of the Bill provides for limits on loans and credit facilities. It prohibits an institution from granting a loan or credit facility to any person where the loan or credit facility, in the aggregate, exceeds such limit of its core capital. In addition, the Bill prohibits an institution from granting a loan or credit facility against the security of its own shares and those of its subsidiaries.

30. In addition, the Bill makes it an offence for a person contravening this provision but leaves it to the Central Bank to prescribe a penalty. Section 17(3) of the Microfinance Act prescribes a penalty of a fine not exceeding 50,000 shillings, or to imprisonment for a term not exceeding 2 years, or to both.

31. **Clause 21** of the Bill provides for provisions on insider trading. It prohibits an institution from granting a loan, credit facility or give any financial guarantee to its associates, or to an officer or member of staff of the institution, or their associates, in excess of such limits as the Central Bank may prescribe. The Bill further increases the penalty of anyone contravening this provision, to a fine not exceeding 5 million shillings, or to imprisonment for a term not exceeding 5 years, or to both. Section 18 of the Microfinance Act, provides the penalty to a fine not exceeding 100,000 shillings, or to imprisonment for a term not exceeding 3 years, or to both.

32. **Clause 22** of the Bill provides that no person shall transfer, 5% or more of the shares of an institution without the prior approval of the Central Bank, this is a reduction from the current 10% or more shares as prescribed in section 19 of the Microfinance Act. The Bill further

provides that no person shall become a significant shareholder except with the prior written approval of the Central Bank.

33. **Clauses 23-25** of the Bill provide for provisions on corporate governance. The Bill provides that no significant shareholder of a microfinance bank shall be an executive director or form part of the senior management of the institution. It further provides that a person shall become or remain as a director after being vetted by the Central Bank.

34. **Clauses 26-34** of the Bill provide for provisions of accounts and audit.

35. **Clauses 35-37** of the Bill provide for provisions on information and reporting requirements.

36. **Clauses 38-46** of the Bill provide for provisions on supervision of institutions by Central Bank. In particular, clause 42 of the Bill provides that an institution shall at all times grant to the Central Bank a secure remote online access to its information technology infrastructure and information management systems as the Central Bank may require for purposes of discharging its functions under the Act.

37. **Clauses 47-61** of the Bill provide for miscellaneous provisions. Clause 50 of the Bill provides that where a company registered under the Companies Act as a microfinance bank fails to acquire a licence to operate under the Act within a period of 1 year from the date of such registration, the company shall cease using the words "microfinance bank" in its name.

38. **Clause 54** of the Bill provides that an institution shall not introduce a new product or service or make any substantial change in the features of an existing product or service or impose or increase charges on any product or service without the prior written approval of the Central Bank.

39. **Clause 60** of the Bill provides that any institution or person who fails or refuses to comply with any provision of the Act, Regulations or guidelines made thereunder or any direction or order issued by the Central Bank under the Act or Regulations or guidelines shall be liable to a monetary penalty not exceeding 1 million shillings in the case of an institution, or 100,000 shillings in the case of a natural person.

40. Further, the Bill provides that the Central Bank may prescribe additional penalties not exceeding 10,000 shillings in each case for each day or part thereof during which such failure or refusal continues.

41. **Clause 61** of the Bill provides where a person commits an offence under the Act for which no penalty is stipulated the person shall be liable, to a fine not exceeding 2 million shillings, or to imprisonment for a term not exceeding 1 year, or to both.

42. **Clause 62** of the Bill provides for provisions on delegated powers of the Central Bank.

43. **Clause 63** of the Bill provides for the repeal of the Microfinance Act, Cap. 493C.

CHAPTER THREE

3.0 PUBLIC PARTICIPATION AND STAKEHOLDER ENGAGEMENT ON THE BILL

44. To facilitate public participation, the Clerk of the National Assembly placed an advertisement in the print media on 4th June 2026 inviting the public to submit memoranda on the Bill. Further, the Clerk of the National Assembly vide letter Ref NA/DDC/F&NP/2026/101, NA/DDC/F&NP/2026/102, NA/DDC/F&NP/2026/103 and NA/DDC/F&NP/2026/104 dated 8th July 2026 invited key stakeholders to submit views on the Bill and attend a public participation forum from 21st July 2026 to 23rd July 2026 respectively.

45. The Committee received fourteen (14) memoranda from the following stakeholders whose submissions are detailed below:

(1) Ministry of Investments, Trade and Industry- State Department for Trade;
(2) Capital Markets Authority (CMA);
(3) Central Bank of Kenya (CBK);
(4) Office of the Auditor General (OAG);
(5) Federation of Kenya Employers (FKE);
(6) Ernst and Young LLP (EY);
(7) Financial Reporting Centre (FRC);
(8) Anjarwalla and Khanna (ALN);
(9) KPMG Kenya
(10) Kenya Bankers Association (KBA);
(11) Institute of Certified Public Accountants of Kenya (ICPAK);
(12) Law Society of Kenya (LSK);
(13) Pricewatercoopers Limited (PWC); and
(14) The Association of Microfinance Institutions (AMFI)

3.1 SUBMISSIONS FROM STAKEHOLDERS

General Submissions

Office of the Auditor General

46. The **OAG** noted that the banking sector has seen an increase in players offering credit facilities to our public. These include the banks, microfinance, digital lenders and even informal money lenders. This has resulted in challenges in regulation and, at times, untold suffering to the public.
47. The Bill seeks to provide a safe and sound environment for the Microfinance banks including licensing provisions, operations and minimum capital requirements and ratios, risk

management measures, restrictions on insider loans, corporate governance structures, accounts and audit and the role of Central Bank of Kenya (CBK) in supervision of these institutions.

48. The proposal to increase the core capital for the microfinance institutions to Kshs.250 million will ensure that only those institutions that can mobilize adequate capital operate. This will go a long way in safeguarding the interest of the public.

49. The persistent outcry on high interest on non-performing loans will be addressed by the strict enforcement of the *duplum* rule and the benefits will be immense to the borrowers. Additionally, real time monitoring by the CBK on the activities of the microfinance institutions will protect depositors and provide early warning mechanisms.

Financial Reporting Centre (FRC)

50. The **FRC** submitted that in 2023, the Anti Money Laundering and Combating of Terrorism Financing Laws (Amendment) Act, 2023 amended 17 Laws among them the Microfinance Act, 2006. During that time, the proposed Bill was being developed. They submitted that the proposed Bill before the Committee has not captured the amendments made to the original Act which is being repealed.

51. The amendments were aimed at enhancing the powers of Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) supervisory authorities (in this case the Central Bank of Kenya) to supervise, monitor and conduct AML/CFT oversight of microfinance institutions, to undertake risk-based supervision, to exchange information for AML/CFT purposes, to conduct fit and proper tests for reporting institutions, to issue AML/CFT guidelines, to impose sanctions for AML/CFT violations and infringements as well as to conduct AML/CFT/CPF inspections.

52. Additionally, the amendments were aimed at addressing shortcomings identified in Kenya's mutual evaluation leading to the country's placement into the Financial Action Task Force (FATF) Grey List. Specifically, the report noted that;
    (a) The Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) does not prescribe that supervisory bodies should use the powers in their respective sectoral laws for AML/CFT supervision purposes. Sectoral laws do not provide for AML/CFT and do not cross-reference the POCAMLA; and
    (b) Kenya does not have a range of proportionate and dissuasive civil and administrative sanctions for dealing with natural or legal persons that fail to comply with the AML/CFT requirements or non-compliance with AML/CFT obligations.

53. Further, FRC noted that the amendments defined 'beneficial owner' and 'significant shareholder' with regard to the microfinance business.
54. The amendments also provide limitation on the right to privacy where a person is suspected or accused for an offence in the Act and specifically money laundering and terrorism financing.

55. The **FRC** urged the Committee to consider on boarding the amendments undertaken in 2023 to safeguard the microfinance business from possible abuse.

Clause by Clause Submissions

Clause 2

56. **CBK** proposed deleting the new proposed definition of '*non-deposit taking business*' since non-deposit taking businesses as defined in the Bill are regulated under the Central Bank Act. The Central Bank of Kenya submitted that the Business Laws (Amendment) Act, 2024, amended the CBK Act by expanding the regulatory scope of the Digital Credit Providers to all Non-Deposit Taking Credit Providers (NDTCP). Pursuant to the amendment, the term "digital" in the CBK Act was replaced with the term "non-deposit-taking" to address confusion among credit providers, especially those providing credit services through physical branches. They highlighted that draft NDTCP regulations were in the process of enactment through the Office of the Attorney General and would consolidate the supervision and regulation of NDTCPs under the CBK Act.

Committee's Observation

The Committee agreed with the proposal by CBK, noting the amendment to the CBK Act in the Business Laws Amendment Act of 2024 on the term "non-deposit-taking".

Clause 2

57. **ALN** proposed amending the definition of "*associate*" to read as follows:

> *"a person shall be deemed to be a member of a family if that person is the parent, spouse, brother, sister, half-brother, half-sister, child, grandparent, grandchild, uncle, aunt, nephew, niece, stepfather, stepmother, stepchild and adopted child of the person concerned, and in case of an adopted child his or her adopter or adopters; and shall further include parents-in-law, children-in- law, and siblings-in-law of the person concerned."*

58. According to the stakeholder, the definition should be broadened to reflect Kenya's socio-cultural context by including half-siblings, grandparents, grandchildren, and in-laws. The

stakeholder argued that these relationships often influence financial decision-making and family business structures, making the definition more inclusive and better aligned with the realities of family life in Kenya.

Committee's Observation

The Committee acknowledged the submissions by ALN but was of a different view, noting that the current definition in the Bill is similar to the definition of associate in the Banking Act, Cap. 488, and hence the need for alignment with the Banking Act.

59. Additionally, **ALN** proposed amending the definition of "*beneficial owner*" to read as follows:

"beneficial owner" has the meaning assigned to it under the Companies Act (Cap 486).

60. According to ALN, the definition of "beneficial owner" should be aligned with the Companies Act and the Companies (Beneficial Ownership Information) Regulations, 2020 to ensure clarity and consistency in identifying the natural person who ultimately owns or controls an interest.

Committee's Observation

The Committee agreed with ALN's proposal to align the definition of "beneficial owner" with the Companies Act, 2015.

61. **ALN** proposed amending the definition of "*significant shareholder*" by inserting the following words at the end of the definition:

"and includes any person acting in concert with another person where their combined shareholding amounts to five percent or more of the issued share capital."

62. **The** stakeholder submitted that incorporating the concept of "persons acting in concert" into the microfinance framework would promote consistency with Kenyan securities law, prevent the circumvention of significant shareholder thresholds through coordinated acquisitions, and strengthen corporate governance.

Committee's Observation

The Committee acknowledged the proposal by ALN. The Committee, however, noted that the current proposal was sufficient.

63. **PWC** proposed amending the clause by expanding the definition of "*Shariah-compliant products*" to provide that such products shall comply with the core principles of Islamic finance, including the prohibition of *riba* (interest), *gharar* (excessive uncertainty in contracts), *maysir* (gambling or speculative transactions), and *haram* (activities prohibited under *Shariah*).

64. Further, they proposed amending the clause to provide for the establishment of, or make reference to, a Central Bank of Kenya Shariah Advisory Board responsible for determining and advising on whether products, services, and transactions qualify as Shariah-compliant in Kenya. The stakeholder stated that Islamic finance products comprise multiple components, and a product may comply with some Islamic finance principles but not others. Without clear standards, uncertainty may arise over what qualifies as a Shariah-compliant product. A Central Bank Shariah Advisory Board would provide consistency, certainty, and prevent disputes.

Committee's Observation

The Committee acknowledged the proposal by PWC on expanding the definition. However, the Committee was of the view that the current definition was sufficient. Further, the Committee noted there was no need to make reference to the CBK Shariah Advisory Board as the Bill already requires the approval of CBK for shariah products.

65. **Additionally, PWC** proposed amending the definition of '*agent*' by clearly specifying the dual-approval process, including the respective roles of the approving authorities, the sequence of approvals, and defined timelines within which each authority must make its decision. Further, amend the clause to streamline the approval process by eliminating overlapping regulatory requirements to facilitate the timely and efficient deployment of agents while maintaining appropriate regulatory oversight. The stakeholder stated that agent banking is a key driver of financial inclusion in Kenya, particularly in rural areas. Excessive bureaucracy in the agent approval process would delay deployment, limit access to financial services, and undermine financial inclusion objectives.

Committee's Observation

The Committee acknowledged the proposal by PWC. However, it was of the view that the proposals could be best addressed in Regulations.

66. **Further, PWC** proposed amending the definition of '*significant shareholder*' by reviewing the proposed 5% threshold for prior approval of share acquisitions and consider adopting a higher threshold, such as 10%, where this would provide a more proportionate regulatory

framework consistent with international practice. Alternatively, if the 5% threshold is retained, amend the clause to introduce a simplified approval process for acquisitions of between 5% and 15%, with enhanced regulatory scrutiny reserved for acquisitions involving larger or controlling shareholdings. According to the stakeholder, a tiered approach would balance regulatory oversight with ease of investment.

Committee's Observation

The Committee acknowledged the proposal by PWC however, it noted that the current proposal was sufficient to ensure efficient management of microfinance institutions.

New Proposals

67. **ALN** proposed inserting a new definition of "*acting in concert*" to read as follows:

> *"acting in concert" means persons who, pursuant to an agreement, arrangement or understanding (whether formal or informal), co-operate to obtain or consolidate control or significant influence over an institution.*

68. The stakeholder submitted that adopting the definition would promote consistency with existing Kenyan securities law and strengthen governance by preventing related parties from circumventing significant shareholder controls through coordinated acquisitions.

Committee's Observation

The Committee acknowledged the proposal by ALN. The Committee, however, noted that the term had not been used anywhere in the Bill.

69. **ALN** proposed inserting a new definition of "*core capital*" to read as follows:

> *"core capital" means permanent shareholders' equity in the form of issued and fully paid-up shares of common stock, plus all disclosed reserves, less goodwill or any other intangible assets.*

70. According to the stakeholder, the definition seeks to provide clarity on what amounts to core capital and is consistent with the approach taken in the Banking Act.

Committee's Observation

The Committee agreed with the proposal by ALN on the need to define *"core capital".*

71. **ALN** proposed inserting a new definition of "*Executive director*" to read as follows:

"Executive director" means a director who is involved in the day-to-day operations of the institution. The executive director is a full-time salaried employee of the institution or of its subsidiaries.

72. The stakeholder submitted that this proposal would provide clarity on who is defined as an executive director and a non-executive director.

Committee's Observation

The Committee acknowledged the proposal by ALN however, the Committee noted the term *'non-executive director'* had already been provided for in the Bill.

73. **ALN** proposed inserting a new definition of independent non-executive director under clause 2 to read as follows:

"Independent non-executive director" means a director who:

i. has not been employed by the institution in an executive capacity within the last five years;
ii. is not associated to an adviser or consultant to the institution or a member of the institution's senior management or a major customer or supplier of the institution or with a not-for-profit entity that receives more than fifty percent (50%) of its contributions from the institution; or within the last five years, has not had any business relationship with the institution (other than service as a director) for which the institution has been required to make disclosure;
iii. has no personal service contract(s) with the institution, or a member of the institution's senior management;
iv. is not a member of the family of any person described above or;
v. has not had any of the relationships described above with any affiliate of the institution;
vi. does not have direct or indirect interest in the institution which exceeds 5% of its equity interest or its related companies;
vii. is not a direct or indirect representative of a significant shareholder who has the ability to control or significantly influence management or the board. Indirect representation includes a nominee or an associate of a shareholder.

74. The stakeholder submitted that this proposal would provide clarity on who is defined as an independent non-executive director.

Committee's Observation

The Committee agreed with the proposal by ALN on providing a definition of an "independent non-executive director'.

Clause 3

75. **PWC** proposed amending the clause by reinstating a clear statutory threshold, updated periodically to reflect inflation, below which non-deposit-taking businesses are exempt from the licensing requirements. Alternatively, if the threshold is to be determined through administrative discretion, amend the clause to require the Cabinet Secretary to publish objective, transparent, and publicly accessible criteria for determining the businesses subject to the Act, thereby promoting legal certainty, consistency, and predictability in its application. The stakeholder stated that a purely discretionary regime creates legal uncertainty and may result in very small operators being over-regulated while significant lenders remain outside the regulatory framework.

Committee's Observation

The Committee agreed with the proposal by PWC on deleting the definition.

76. **AMFI** submitted that the Bill needs to:
    (i) Include a microfinance entity to which it applies "credit-only microfinance institution" suitably defined, as opposed to "non-deposit-taking microfinance";
    (ii) Provide for a clear registration regime for credit-only microfinance institutions, and for registration exemption for credit only microfinance institutions with loan books falling below a specified size/value threshold;
    (iii) Identify the Central Bank as the registering authority for credit only microfinance institutions and delete references to the Cabinet Secretary making regulations.

Committee's Observation

The Committee acknowledged the proposal by AMFI but noted that the term had not been used anywhere in the Bill.

Clause 3(1)(b)

77. **CBK** proposed the deletion of this provision so as to align the Microfinance Bill with existing provisions in the CBK Act and in line with their submission on proposed amendments to Clause 2 of the Bill.

Committee's Observation

The Committee agreed with the proposal by CBK.

Clause 3(1)(b) and 3(2)

78. **ALN** proposed deleting the clauses in their entirety. Further, the definition of "*non-deposit-taking business*" and all references to it throughout the Bill should also be removed, as their inclusion establishes a separate and unnecessary licensing regime.

Committee's Observation

The Committee agreed with the proposal by ALN.

Clause 3(2)

79. **CBK** proposed the deletion of this provision so as to align the Microfinance Bill with existing provisions in the CBK Act and in line with their submission on proposed amendments to Clause 2 of the Bill.

Committee's Observation

The Committee agreed with the proposal by CBK.

Clause 3(3)

80. **ALN** proposed amending the clause by inserting the following new paragraph (f):

> *"(f) non-deposit-taking business regulated under the Central Bank of Kenya Act (Cap. 491) or any other applicable written law."*

Committee's Observation

The Committee agreed with the proposal by ALN.

Clause 4

81. **The State Department for Trade** proposed providing a proportionate licensing framework that accommodates different categories of institutions while maintaining prudential safeguards. They highlighted that strict licensing requirements may limit market entry and reduce competition, particularly for innovative MSME-focused financial service providers.

Committee Observation

The Committee acknowledged the proposal by the State Department but it was of the view that the Bill provides that CBK is required to consider several factors before issuance of a licence. These factors include the financial condition and viability of the business.

Clause 4

82. **AMFI** submitted that the Bill ought to provide for a unified licensing regime providing a single registration class for Microfinance Banks.

Committee's Observation

The Committee acknowledged the proposal by AMFI but noted that the Bill empowers the Central Bank to consider several factors, after which it may endorse such a licence and any necessary conditions. Therefore, it may be difficult to provide for a single registration class.

Clause 4 (2)

83. **PWC** proposed amending the proposal by reducing the prescribed fine to a more proportionate level that reflects the nature and gravity of the offence. Further, provide for a tiered penalty framework based on the scale, duration, and impact of the unlicensed operations, ensuring that sanctions are proportionate while maintaining an effective deterrent against non-compliance. It was the stakeholder's view that the proposal may violate Articles 27 and 43 of the Constitution.

Committee's Observation

The Committee acknowledged the proposal by PWC. The Committee, however, noted that the penalty was to ensure efficient management of microfinance business in Kenya by requiring every person intending to operate such business be issued with a licence.

Clause 5

84. **The State Department for Trade** submitted that lengthy approval procedures may delay investment and discourage new entrants into the microfinance sector. They proposed prescribing statutory timelines for processing licence applications and providing an electronic application platform to improve efficiency.

Committee's observation

The Committee agreed with the proposal by the State Department on the necessity of timelines for processing of licence applications. However, the Committee noted that the application may take time as CBK is required to satisfy itself of various factors before issuance of a license.

Clause 6

85. **The State Department for Trade** noted that there is need to provide greater transparency regarding licensing criteria to reduce uncertainty for investors. They proposed requiring publication of licensing criteria and reasons for approval or refusal to enhance transparency and investor confidence.

Committee's observation

The Committee acknowledged the proposal by the State Department but noted that the Bill prescribed the factors that shall be considered by CBK before issuing a licence. Further, the Bill mandates the CBK to notify the applicant of reasons for refusal of their application.

86. **AMFI** submitted that the Bill ought to allow for the CBK to deduct the annual fee from accounts held by the Microfinance Bank with the Central Bank rather than levy a penalty. The Association stated that there needs to be a provision empowering the Central Bank to recognize licensing (for Microfinance Banks) and registration (for Credit Only Institutions) exceptions for institutions with a loan book size falling below a specified threshold. Further, the Bill should also define the parameters that will govern the Central Bank's exercise of its discretion to afford registration exceptions.

Committee's observation

The Committee acknowledged the proposal by AMFI and noted that this may impact the core capital if CBK deducts it as opposed to imposing a penalty.

Clause 6(2)

87. **FKE** proposed amending the clause by inserting the phrase 'within 60 days' immediately after the words prescribed fee. They stated that prescribing a statutory timeline for the issuance of licenses promotes administrative efficiency. It enables applicants to plan their business operations with certainty and reduces unnecessary delays in the licensing process. This will in turn enhance accountability in the decision-making process.

Committee's observation

The Committee agreed with the proposal by FKE on the necessity of timelines for processing of licence applications. However, the Committee noted that the application may take time as CBK is required to satisfy itself of various factors before issuance of a license.

88. **ICPAK** proposed amending the proposal by inserting a new clause immediately after clause 6 (2) to read:

> *"The Central Bank, maintains, updates and publishes the list of microfinance institutions, their branches on its website at least once a year."*

The stakeholder submitted that this will promote transparency and facilitate public verification of licensed institutions.

Committee's Observation

The Committee agreed with the proposal by ICPAK that this will promote transparency and public trust in the microfinance business.

89. **ALN** proposed amending the clause by inserting a new proposal on statutory timelines to read as follows:

> *"(3) The Central Bank shall make a determination on an application for a licence within one hundred and twenty (120) days of receipt of a complete application. Where the Central Bank requires additional time to make a determination, it may extend the period by a further sixty (60) days upon giving written notice to the applicant, stating the reasons for the extension."*

90. According to the stakeholder, introducing a statutory timeline for licensing decisions would enhance predictability and transparency by ensuring applications are determined within a reasonable period, while allowing sufficient flexibility for the Central Bank of Kenya to undertake thorough regulatory assessments.

Committee's observation

The Committee agreed with the proposal by ALN on the necessity of timelines for processing of licence applications. However, the Committee noted that the application may take time as CBK is required to satisfy itself of various factors before issuance of a license.

Clause 6 (4)

91. **ICPAK** proposed amending by inserting a new clause immediately after clause 6 (4) to read:

> *"6(5) The licence issued under this Act is neither transferable nor assignable.*
> *6(i) A person who contravenes subsection 6(5) commits an offence and shall be liable, on conviction, to a fine not exceeding five million shillings or to imprisonment for a term not exceeding three years or both."*

92. According to the stakeholder, the proposal would ensure that licences remain valid only for entities that have been assessed, approved, and licensed by the Central Bank.

Committee's observation

The Committee acknowledged the proposal by ICPAK, but was of a different view on the matter.

Clause 7

93. **ALN** proposed amending the proposal to read as follows:

"(3) An applicant aggrieved by the decision of the Central Bank in subsection (1) may, within ninety days, of receipt of the notification of the decision, apply to the Central Bank for a review of the decision.

(4) In considering an application for review under subsection (3), the Central Bank may take into account any relevant information, including material events occurring after the Central Bank made its decision.

(5) The Central Bank may reverse its decision in subsection (1) if it is satisfied that the applicant has provided information that adequately addresses the reasons for refusal.

(6) If the Central Bank does not reverse its decision under subsection (1) because it is not satisfied that the applicant has provided adequate information to address the reasons for refusal, the aggrieved applicant may, under subsection (6), appeal to the Cabinet Secretary within fourteen days."

94. **ALN** highlighted that the proposal would enhance fairness by ensuring applicants have the full period to respond after receiving notification, clarify the scope of review by allowing consideration of relevant new information, strengthen regulatory integrity by linking reversals to the grounds of refusal, and promote accountability by providing applicants with recourse where they believe a refusal is unjustified.

Committee's observation

The Committee acknowledged the proposal by ALN. The Committee, however, noted that the provisions in the Bill were sufficient.

Clause 7(3)

95. **ICPAK** proposed amending the proposal by inserting a new clause after 7 (3) to read:

"The Central Bank must provide the applicant aggrieved by the decision with response within three (3) months of date on which the appeal was lodged."

96. The stakeholder submitted that the proposal would promote administrative efficiency, ensure the timely resolution of licensing disputes, and provide greater certainty to applicants.

Committee's observation

The Committee agreed with the proposal by ICPAK on the need to provide a timeline for a response on the review by CBK.

Clause 7(5)

97. **ICPAK** proposed amending by inserting a new provision immediately after clause 7(5) to read:

"Where an applicant is dissatisfied with the decision on an appeal, the applicant may, within six (6) months of receiving the decision, refer the matter to a court of Law."

98. According to the stakeholder, the proposal would safeguard the right to fair administrative action and access to justice by providing a clear legal pathway for further review.

Committee's observation

The Committee acknowledged the proposal by ICPAK but noted that the provisions in the Bill were sufficient.

Clause 8

99. **AMFI** submitted that the Bill needs to provide for timelines within which registration and licensing processes ought to be concluded (akin to similar provisions in the Capital Markets Act and regulations).

Committee's observation

The Committee agreed with the proposal by AMFI on the necessity of timelines for processing of licence applications. However, the Committee noted that the application may take time as CBK is required to satisfy itself of various factors before issuance of a license.

100. Further, AMFI proposed insertion of new clause 8(3)

"(3) The Central Bank shall in exercising its power under subsections (1) and (2) shall be bound by the following obligations—

(a) the need to ensure fair competition amongst institutions;

(b) the need to ensure uniformity of reporting obligations by institutions in so far as it is possible; and

(c) the need to develop the microfinance industry."

Committee's observation

The Committee agreed with the proposal by AMFI on ensuring fair treatment whenever CBK exercises its discretion.

Clause 8 (2)

101. **ALN** proposed amending the proposal to read as follows:

"8(2) The Central Bank may, by regulations, direct that specified operational and administrative provisions of this Act shall not apply to a defined category of institutions if the nature, scale,

mode or place of business of that category renders the application of such provisions unnecessary or disproportionate:

Provided that the Central Bank shall not disapply any provision of this Act relating to:

(a) the prohibition on conducting microfinance business without a licence;
(b) minimum capital and prudential requirements;
(c) consumer protection obligations;
(d) governance and fit-and-proper requirements; or
(e) the supervisory, inspection, investigative and enforcement powers of the Central Bank."

102. According to the stakeholder, the proposal would strike a better balance by limiting the Central Bank of Kenya's exemption powers to operational and administrative matters while safeguarding core provisions on licensing, capital adequacy, consumer protection, and governance that are essential for financial stability and depositor protection.

Committee's observation

The Committee agreed with the proposal by ALN for the effective management of microfinance business.

Clause 9

103. **EY** observed that the provisions in the clause should be reconsidered as it may result in an unjustifiable limitation of constitutional rights, particularly the right to privacy under Article 31, the right to property under Article 40, and the right to fair administrative action under Article 47 of the Constitution. They proposed retain the current provision under section 8 as follows;

"Central Bank's power of inspection
The Central Bank may, under a warrant issued by the High Court, enter any premises and examine the books, accounts or records of any person whom the Central Bank, on reasonable grounds, believes to be carrying out deposit- taking business contrary to the provisions of this Act."

Committee's observation

The Committee acknowledged the proposal by EY and agreed on the need for requiring a warrant issued by a High Court to prevent arbitrariness by CBK in its power of inspection.

104. **AMFI** submitted that the Bill needs to include a requirement that the Central Bank obtain a search warrant before it can enter premises to investigate suspected noncompliance

because the Central Bank may now act on its own reasonable belief, which gives it too wide a discretion.

Committee's observation

The Committee acknowledged the proposal by AMFI and agreed on the need for requiring a warrant issued by a High Court to prevent arbitrariness by CBK in its power of inspection.

105. **KPMG Kenya** proposed amending clause 9(1) to read as follows:

"The Central Bank may, with a warrant issued by a court of competent jurisdiction, enter any premises and examine the books, accounts, records, equipment, computer systems, software or fixtures of any person whom the Central Bank, on reasonable grounds, believes to be carrying out microfinance bank business contrary to the provisions of this Act."

106. According to the stakeholder, the provision may raise constitutional concerns relating to the right to privacy, protection of property and fair administrative action. While effective regulatory oversight is necessary, the exercise of such intrusive investigative powers should be subject to appropriate safeguards and judicial oversight to prevent arbitrary interference with business operations.

Committee's observation

The Committee acknowledged the proposal by KPMG and agreed on the need to require a warrant issued by a High Court to prevent arbitrariness by CBK in its power of inspection.

Clause 9(1)

107. **ALN** proposed amending the proposal by inserting the following at the end of the clause:

Provided that

(a) where the premises to be entered are not the registered business premises of a licensed institution, the Central Bank shall first obtain a warrant from the High Court authorising the entry and examination;

(b) notwithstanding paragraph (a), where the Central Bank has reasonable grounds to believe that entry without a warrant is urgently necessary to prevent the destruction or concealment of evidence that may affect depositors or the public, the Central Bank may enter without a warrant but shall, within twenty-four (24) hours of such entry, apply to a court of competent jurisdiction for an order confirming the entry;

(c) *the warrant referred to in paragraph (a) shall specify the premises to be entered, the nature of information or items sought, and the period within which the warrant may be executed;*

(d) *entry shall ordinarily be conducted during ordinary working hours, unless urgency requires otherwise;*

(e) *the Central Bank shall prepare a written record of the inspection and furnish a copy to the person affected within seven (7) days; and*

(f) *any information obtained in the course of such inspection shall be treated as confidential and used solely for regulatory purposes under this Act."*

108. According to the stakeholder, the proposal would balance the Central Bank of Kenya's enforcement powers with safeguards to ensure inspections are lawful, transparent, and consistent with constitutional rights.

Committee's observation

The Committee acknowledged the proposal by ALN and agreed on the need to require a warrant issued by the High Court to prevent arbitrariness by CBK in its power of inspection.

109. **LSK** proposed amending the proposal by deleting the words "without a warrant" and requiring the Central Bank to obtain a warrant issued by the High Court before entering and examining the premises. According to the stakeholder, the proposal would balance the Central Bank's enforcement powers with the constitutional right to privacy by requiring judicial oversight for entry into premises, while retaining the safeguard currently provided under the Microfinance Act, 2006.

Committee's observation

The Committee acknowledged the proposal by LSK and agreed on the need to require a warrant issued by a High Court to prevent arbitrariness by CBK in its power of inspection.

Clause 9 (1) and (2)

110. **PWC** proposed deleting the proposal or ultimately introducing safeguards. It was the stakeholder's view that the provision may infringe the right to privacy under Article 31 of the Constitution. They further noted that section 815(3)(b) of the Companies Act recognises the disruptive impact of removing documents from business premises and supports safeguards against unnecessary interference.

Committee's Observation

The Committee acknowledged the proposal by PWC and agreed on the need to require a warrant issued by a High Court to prevent arbitrariness by CBK in its power of inspection.

Clause 9 (2)

111. **LSK** proposed amending the proposal to require the Central Bank to provide the affected person with a written inventory or acknowledgment of every original document or other item taken. The Central Bank should also be required to return the document or item as soon as it is no longer reasonably required and, in any event, upon the conclusion of the investigation or the final determination of the related judicial proceedings, unless its continued retention is authorized by a court.

112. The stakeholder was of the view that requiring a written inventory or acknowledgment of seized documents would promote accountability and protect against their loss or indefinite retention, while ensuring affected persons have a clear record of the property taken and a legally enforceable right to its return once it is no longer required.

Committee's observation

The Committee agreed with the proposal by LSK on providing a written inventory to the affected person.

Clause 10

113. **The State Department for Trade** proposed providing graduated enforcement measures, including corrective action plans and reasonable compliance periods before licence revocation, except where immediate action is necessary to protect depositors. They submitted that immediate licence revocation may disrupt financial services to MSMEs and low-income customers.

Committee Observation

The Committee acknowledged the proposal by the State Department and noted that the provisions in the Bill were sufficient.

Clause 10(1) (c)

114. **ICPAK** proposed amending the clause to read as follows:

(c) ceases to carry out microfinance bank businesses for a period of more than 60 days without any authorization from the Central Bank;

115. According to the stakeholder, this will enhance clarity and reduce ambiguity.

Committee's observation

The Committee agreed with the proposal by ICPAK but noted the period of 60 days was too short to consider revocation of a licence.

Clause 10

116. **ICPAK** proposed inserting a new subsection 10(1) (m) and (n) to read:

> *"(m) has obtained the license through incorrect statements or fraudulent means;*
> *(n) performs any other activity compromising the soundness of the financial sector including and not limited to money laundering"*

117. According to the stakeholder, the proposal would strengthen regulatory oversight and align the Act with anti-money laundering and broader financial sector governance principles.

Committee's observation

The Committee agreed with the proposal by ICPAK.

Clause 10(2)

118. **ALN** proposed amending the proposal to read as follows:

> *"(2) The Central Bank shall, before revoking a licence, give an institution not less than forty-five (45) days' written notice specifying the grounds for the proposed revocation and requiring the institution to show cause why the licence should not be revoked; provided that where the Central Bank determines that an institution poses an imminent and serious threat to the interests of its depositors or to the stability of the financial system, it may immediately suspend the institution's licence for a period not exceeding thirty (30) days pending completion of the show-cause process."*

119. According to the stakeholder, extending the response period for licence revocation would enhance due process by providing sufficient time to respond, while retaining emergency suspension powers would enable the Central Bank of Kenya to act swiftly to protect depositors where immediate intervention is necessary.

Committee's Observation

The Committee acknowledged the proposal by ALN however it noted that the provisions in the Bill were sufficient.

Clause 11

120. **ALN** proposed inserting a new subsection to read

"For the purposes of subsection (1), reference to "person" shall include a reference to that person's associates.

121. According to the stakeholder, including associates within the ownership limit would prevent circumvention of the 25% shareholding cap through related parties, thereby strengthening transparency and stability in the microfinance sector.

Committee's observation

The Committee acknowledged the proposal by ALN but noted that the provisions of the Bill were sufficient.

Clause 11 (1) (c)

122. **PWC** proposed amending the clause by requiring any such ownership or acquisition to be subject to prior approval by the Cabinet Secretary, acting on the recommendation of the Central Bank of Kenya, on a case-by-case basis. According to the stakeholder, the amendment is necessary to safeguard financial stability, promote sound governance, and protect the public interest as well as ensure accordance with Articles 1 and 231 of the Constitution.

Committee's Observation

The Committee acknowledged the proposal by PWC and noted that the provisions in the Bill were sufficient.

Clause 11

123. **AMFI** submitted that there is need to enhance the provisions on non-operating holding company so as to facilitate ease & cost (including taxes) of transfer of business, allow for specialization by subsidiaries and ensure that each subsidiary has autonomy and is not adversely affected by other business units.

Committee's observation

The Committee acknowledged the proposal by AMFI but noted that the provisions in the Bill were sufficient.

Clause 12 (9)(b)

124. **CMA** submitted that the provision requires that where one microfinance institution is merged into or acquired by another, the Registrar of Companies, Registrar of Titles, deeds registries and other relevant registries would be required, upon presentation of the relevant documents, to update their records to reflect the transfer of share, stock, debenture or other marketable security.

Committee observation

The Committee acknowledged the proposal by CMA but noted that the provisions in the Bill were sufficient.

Clause 13

125. **AMFI** proposed that the Bill should lower the minimum core capital requirement to approximately Kshs. 125 million shillings so as not to hamper operations of smaller/emerging microfinance banks.

Committee's observation

The Committee agreed with the proposal by AMFI but noted that the need to increase to Ksh. 150 million to ensure efficient management of microfinance businesses.

126. **KPMG Kenya** proposed amending paragraph (d) of the First Schedule to provide for a phased implementation framework:

"A core capital of at least two hundred and fifty million shillings to be achieved progressively as follows:

(a) KES 100 million within two years of commencement;
(b) KES 150 million within three years of commencement;
(c) KES 200 million within four years of commencement; and
(d) KES 250 million within five years of commencement."

127. According to the stakeholder, a phased implementation approach would support prudential objectives while preserving access to financial services for underserved communities and promoting an orderly transition within the sector.

Committee's observation

The Committee agreed with the proposal by KPMG on the tiered compliance period and agreed to reduce it to a 4-year period.

Clause 13 (1)

128. **ALN** proposed amending the proposal to introduce a phased milestone to allow gradual, well-monitored capital build-up, avoiding rushed or poor-quality injections. According to the stakeholder, tiered capital requirements would better reflect the varying scale and risk profiles of microfinance banks and help preserve financial inclusion by avoiding undue burdens on smaller community-based institutions.

Committee's observation

The Committee agreed with the proposal by ALN on a phased milestone.

129. **AMFI** proposed deleting subsection (1) and replacing with the following:

" An institution shall maintain the minimum capital requirements and comply with the risk classification and provisioning set out in the First Schedule"

Committee's observation

The Committee agreed with the proposal by AMFI.

130. **KBA** proposed amending the proposal by retaining the current limit of Kshs. 60 million or increase it moderately to Kshs. 100 or 150 million. The stakeholder stated that the proposed increase in the minimum capital requirement may place undue pressure on microfinance institutions, leading to market exits, consolidation, and reduced access to financial services, particularly for MSMEs and underserved communities.

Committee's observation

The Committee agreed with the proposal by KBA to reduce the core capital requirement to 150 million.

Clause 13

131. **EY** noted that the proposed requirement for all institutions to maintain a uniform minimum core capital of KES 250 million within five years does not adequately recognize the significant differences in the size, business models, risk exposure and operational scope of microfinance institutions. They proposed amending the clause to read as follows;

"A core capital of such amount as may be prescribed by the Central Bank, having regard to the size, risk profile, geographical scope, complexity of operations and category of the institution. The Central Bank shall prescribe differentiated minimum core capital thresholds for different categories of institutions, provided that the minimum core capital requirement for any institution shall not be less than KES 60 million."

Committee's observation

The Committee agreed with the proposal by EY to reduce the Ksh. 250 million core capital but noted that it was important for all businesses to maintain similar core capital to ensure efficient management of microfinance businesses.

Clause 14

132. **AMFI** proposed that the Bill should reduce the cash reserve ratio from daily requirement of 3% and monthly average of 4.25% (as per Banking Circular No. 2 of 2022) to 1-2%, or alternatively, pay interest on reserves at Treasury rates.

Committee's observation

The Committee acknowledged the proposal by AMFI but noted that the Bill did not provide for any specific cash reserve ratio but instead provides that the Central Bank shall prescribe minimum ratios.

Clause 14 (3) and (4)

133. **PWC** proposed amending the clause by defining the terms "*adequate capital*" and "*source of strength*" to establish clear, objective, and measurable standards that enable holding companies to understand and comply with their statutory obligations. Further, amend the clause to limit the Central Bank of Kenya's power to require additional capital or support from holding companies to circumstances where there is a demonstrable risk to the solvency or financial soundness of the licensed institution, rather than as a general supervisory tool.

134. The stakeholder stated that holding companies are not deposit-taking institutions and should not be subject to equivalent regulatory obligations. They argued that vague requirements create legal uncertainty, deter investment, and should be replaced with clear statutory obligations to provide greater certainty and predictability.

Committee's observation

The Committee acknowledged the proposal by PWC but noted that the provisions were sufficient to ensure that microfinance businesses are conducted efficiently.

Clause 16

135. **PWC** proposed insertion of a new clause 16 (a) to read as follows:

(a) In relation to section 16, a microfinance institution shall develop a comprehensive risk management framework approved and overseen by the Board of Directors.

(b) The risk management framework must be proportional to the microfinance institution's risk profile, size and complexity.

(c) The risk management framework shall take into consideration:

i) credit risks;

ii) liquidity risks;

iii) operational risks;

iv) market risks;

v) any other risks that may occur.

(d) The microfinance institution shall establish an internal control system that facilitates risk management and compliance with applicable laws.

136. The stakeholder stated that this proposal would strengthen institutional governance.

Committee's observation

The Committee agreed with the proposal by PWC.

Clause 18 (1) (b)

137. **PWC** proposed amending the proposal by reviewing the proposed 25% aggregate investment limit and consider a higher threshold for microfinance institutions to support strategic investments. Further, require the Central Bank of Kenya to publish clear approval criteria and timelines for investments exceeding the prescribed limit. According to the stakeholder, a cap designed for large banks may prevent MFIs from making the very investments they need to modernise and remain viable.

Committee's observation

The Committee agreed with the proposal by PWC but noted that the aim of the proposal was to ensure efficient management of microfinance businesses.

Clause 19

138. **ALN** proposed amending the clause by inserting a new subsection (3) to read as follows:

"(3) Notwithstanding subsection (1), no institution shall declare or pay any dividend where:

(a) the payment of such dividend would cause the institution to breach its minimum capital requirements under section 13 and the First Schedule;
(b) the institution is operating under a corrective action plan, capital restoration plan, or supervisory direction issued by the Central Bank; or
(c) the institution is classified as undercapitalised or significantly undercapitalised within the meaning of this Act.

139. According to the stakeholder, linking dividend payments to capital adequacy would preserve regulatory capital, strengthen compliance during corrective action, and enhance accountability through board certification.

Committee's observation

The Committee agreed with the proposal by ALN however, it noted that the provisions in the Bill were sufficient.

Clause 20

140. **AMFI** proposed that the Bill should increase the borrowing limit for a single end-user from the current 5% to 10% of a microfinance institution's core capital to allow them to support their incubated high-value customers who are creditworthy. The stakeholder further proposed that the Bill should include higher exposure thresholds to reflect customers' evolving credit needs.

Committee's Observation

The Committee agreed with the proposal by AMFI.

Clause 21

141. **KPMG** proposed amending clause 21(4) to introduce a specialist appeals mechanism through either:

> *"The establishment of a Microfinance Appeals Tribunal to hear disputes arising under this Act;" or "The designation of an existing financial services appeals framework to hear disputes arising under this Act prior to appeal to the High Court."*

142. According to the stakeholder, a specialist appeals mechanism would enhance procedural fairness, improve regulatory certainty, reduce litigation costs and align the sector with other regulated industries that benefit from specialized tribunals.

Committee's Observation

The Committee acknowledged the proposal by KPMG but noted that the provisions in the Bill were sufficient.

Clause 21(3)(a)

143. **ALN** proposed amending the clause to read as follows:

> *"Provided that in the case of an advance, loan or credit facility to a person other than a director of the institution or a senior officer or significant shareholder, an officer and significant shareholder shall not be so liable if he shows that through no act or omission on his part, he was not aware that the contravention was taking place."*

144. According to the stakeholder, liability for contravening loans should be limited to significant shareholders who directed, approved, influenced, or knowingly participated in the breach, thereby ensuring accountability is imposed fairly and proportionately.

Committee's observation

The Committee acknowledged the proposal by ALN but noted that the provisions in the Bill were sufficient.

Clause 22

145. **KPMG** proposed that the Bill should consider retaining the existing 10% approval threshold, or alternatively limit the approval requirement to transactions that result in significant influence or control over the institution. They submitted that maintaining the existing threshold would preserve regulatory oversight while avoiding unnecessary compliance burdens and encouraging investment in the sector.

Committee's observation

The Committee agreed with the proposal by KPMG, noting that 5% was too low to warrant CBK's approval, which may take longer and hinder efficiency in the microfinance industry.

New Proposals

146. **AMFI** proposed that the Bill should increase the minimum period required before recognition of non-performing loan and borrower delinquency from 30 days to 90 days.

Committee's observation

The Committee acknowledged the proposal by AMFI noting that the CBK Prudential Guidelines allow banks a 90 day period before a loan is recognised as non-performing.

147. **Further**, **AMFI** proposed that the Bill should provide for a broader scope of assets that the Central Bank will recognize as loan collateral, to include digital assets, patents, digital/social media monetization, chattels and livestock, and other movable assets which most customers have and can use as security. They noted that there needs to be recognition in the Bill of the collateral regime under the Movable Property Security Rights Act.

Committee's Observation

The Committee agreed with the proposal noting that currently microfinance businesses issue collateralized loans.

148. **AMFI** proposed that the Bill should include microfinance institutions as financial institutions under the Banking and Income Tax Acts to unlock cash held in recoverable tax asset. Additionally, the Bill should align provisioning and asset classification with prevailing market practices in other financial subsectors to enhance consistency, comparability, and transparency across the financial sector.

Committee's Observation

The Committee acknowledged the proposal by AMFI but noted this was best addressed in a tax related Bill.

Clause 23

149. **ALN** proposed amending the clause to extend the restriction to associates and clearly define senior management to prevent shareholders from exercising control through proxies, reduce conflicts of interest, and strengthen corporate governance. The new subsection should read as follows:

> *"No significant shareholder of a microfinance bank or any associate shall be an executive director or form part of the senior management of the institution or institution's non-operating holding company. For the purposes of this section, "senior management" consists of senior officers who are responsible and should be held accountable for overseeing the day-to-day management of the microfinance bank and include the chief executive officer, the executive director, deputy chief executive officer (where applicable), general manager(s), chief risk officer, chief operating officer, chief financial officer, secretary to the board of directors, treasurer, chief internal auditor, or manager of a significant unit of an institution."*

Committee's observation

The Committee acknowledged the proposal by ALN but noted that the provisions in the Bill were sufficient.

Clause 24

150. **AMFI** proposed that the Bill should reduce the non-executive board member requirement from at least two-thirds to at least one-third of the board. The Association submitted that among the one-third non-executive members those who are also to be independent should form one-sixth of the board: Additionally, for independent non-executive members, the Bill should provide for a maximum time period during which they can be regarded as independent, after the expiry of which they must be replaced. 7 years could be proposed as the duration.

Committee's observation

The Committee acknowledged the proposal by AMFI but noted that the provisions in the Bill were sufficient.

PART V

Clauses 30 - 32

151. **AMFI** proposed that the Bill needs to ensure that the provisions on whistleblowing (whether by the auditor) should be expanded and elaborated, including providing for protection of whistleblowers.

Committee Observation

The Committee acknowledged the proposal by AMFI and noted that the provisions in the Bill were sufficient.

Clause 31(1)

152. **The OAG** submitted that the Bill provides that an institution shall, in each year, appoint an external auditor who shall be approved by the CBK. However, no provision has been made for appointment of external auditors where the Government of Kenya or its Agencies has a shareholding of more than fifty percent (50%). They proposed insertion of a clause immediately after clause 31 (1) to provide that for institutions where Government of Kenya or its Agencies owns more than fifty percent (50%) of shareholding, the audit shall be conducted by the Auditor-General in accordance with provisions of Article 229(6) and the Public Audit Act, Cap 412B.

Committee's observation

The Committee agreed with the proposal by OAG.

Clause 33 (1) (b)

153. **ALN** proposed amending the clause to require disclosures to be published across multiple platforms, including newspapers and the institution's website, to enhance transparency, improve depositor awareness, and ensure wider public access to regulatory information. The new provision would read as follows:

> *'(b) within three months after the end of each financial year, cause a copy of the last audited statement of comprehensive income and last audited statement of financial position for that financial year to be published in a newspaper with wide circulation and on the institution's official website.'*

Committee's Observation

The Committee agreed with the proposal by ALN to enhance accountability.

Clause 35(2)

154. **FKE** proposed amending the clause immediately after the words under this Act to read as follows;

> *"Unless where similar information has already been submitted to the Central Bank or other regulators."*

155. This would reduce regulatory costs and administrative burden and promote coordinated regulation between the entities.

Committee's observation

The Committee acknowledged the proposal by FKE, but it was of the view that the provisions of the Bill were sufficient.

Clause 36

156. **ALN** proposed amending the proposal to read as follows:

> *"An institution shall promptly notify the Central Bank of the following within the timeframes prescribed below:*
>
> *(a) any material adverse development, including breach of any legal or prudential requirement, within twenty-four (24) hours of the institution becoming aware;*
> *(b) any cyber incident, data breach, or information security event that may compromise the institution's systems or the personal data of its customers, within twenty- four (24) hours of the institution becoming aware; and*
> *(c) any litigation or regulatory proceedings instituted against the institution in any jurisdiction that may have a material impact on its operations, reputation, or financial position, within forty-eight (48) hours. For the purposes of this section, "material adverse development" shall be prescribed by the Central Bank by reference to specific financial thresholds and types of events."*

157. The stakeholder stated that prescribing clear reporting timelines and thresholds for material adverse developments would strengthen regulatory oversight, enable timely responses to emerging and cyber risks, and provide greater certainty and consistency in compliance.

Committee's observation

The Committee agreed with the proposal by ALN, noting the necessity to protect critical data.

Clause 36 & 37

158. **AMFI** proposed amending or deleting either clause 36 or 37. They noted that Provisions of the Bill on Central Bank publication of supplied information (Cl. 37) as read with those on an institution's obligation to notify Central Bank of new developments in its activities, structure, financial condition (Cl. 36) may be anti- competitive.

Committee's observation

The Committee acknowledged the proposal by AMFI and noted that the provisions of the Bill were sufficient for transparency and accountability in microfinance business.

Clause 37 (2)

159. **PWC** proposed amending the proposal to broaden the confidentiality protection under the clause to cover all confidential business information provided to the Central Bank of Kenya, rather than limiting it to "*financial affairs.*" The stakeholder submitted that the protection should extend to all confidential information, not just financial affair. This is reinforced by the constitutional right to privacy enshrined in Article 31 of the Constitution and further supported by the provisions of Section 25 of the Data Protection Act.

Committee's observation

The Committee agreed with the proposal by PWC.

Clause 37 (4)

160. **PWC** proposed amending the clause to expressly require that cross-border information sharing complies with the Data Protection Act, including verification that the receiving jurisdiction has adequate data protection safeguards as required by Section 48 of the DPA.

Committee's Observation

The Committee agreed with the proposal by PWC.

Clause 37 (9)

161. **PWC** proposed amending the clause to require that cross-border credit information exchange complies with the Constitution and Data Protection Act, including proof that receiving entities have adequate data security infrastructure. It is the stakeholder's view that credit information constitutes sensitive personal data under the Data Protection Act and unrestricted cross-border transfers could expose customers' financial information to misuse and undermine data privacy protections.

Committee's Observation

The Committee acknowledged the proposal by PWC but noted the provisions in the Bill were sufficient.

Clause 42

162. **EY** observed that the clause grants broad and potentially unrestricted access to institutional systems without sufficient safeguards. The provision may create concerns relating to confidentiality of customer information, cybersecurity risk, operational resilience and compliance with data protection obligations. Introducing clear statutory limits and safeguards would preserve the Central Bank's supervisory mandate while ensuring proportionality, legal certainty and protection of sensitive information. They proposed amending the clause to read as follows;

> *"(1) An institution shall provide the Central Bank with secure remote access to such information, records and systems as may reasonably be required for the discharge of its supervisory functions under this Act.*
>
> *(2) Any access granted under subsection (1) shall be limited to information necessary for prudential supervision, regulatory compliance monitoring or enforcement of this Act.*
>
> *(3) The Central Bank shall implement appropriate safeguards to ensure the confidentiality, integrity and security of information accessed under this section, including maintenance of access logs and audit trails.*
>
> *(4) Information obtained under this section shall be used solely for purposes authorised under this Act and shall be protected from unauthorised disclosure in accordance with applicable laws relating to confidentiality, privacy and data protection."*

Committee's Observation

The Committee agreed with the proposal by EY.

PART VII

Clause 42

163. **KPMG** proposed amending the clause to insert a new subsection under clause 42 providing:

> *"in exercising its powers under this section, the Central Bank shall implement appropriate safeguards relating to data protection, cybersecurity, confidentiality, audit trails, access controls, purpose limitation and data retention, and shall comply with the provisions of the Data Protection Act."*

164. Explicit safeguards would enable the CBK to effectively discharge its supervisory mandate while protecting sensitive information, preserving public confidence and minimizing operational and legal risks for regulated institutions.

Committee's observation

The Committee agreed with the proposal of KPMG.

New Proposal

165. **AMFI** proposed that the Bill should include provisions that position the Central Bank as an enabler of the microfinance sector. The stakeholder proposed removing the Central Bank's "super-regulatory" power to direct other regulatory and supervisory authorities in respect of regulatory matters and further provide that CBK real time online access should be only during inspection.

Committee's Observation

The Committee acknowledged the proposal by AMFI. The Committee, however, noted that the provisions of the Bill were sufficient.

166. **AMFI** proposed that the Bill should include a part/provision on deposit-protection, and reference and incorporate the deposit protection provisions regime administered by the Kenya Deposit Insurance Corporation (KDIC) and provided for in the KDIC Act.

Committee's observation

The Committee acknowledged the proposal by AMFI and noted the provisions under clause 44(4) where the CBK may appoint KDIC to manage an institution.

Clause 42 (1)

167. **PWC** proposed amending the clause by deleting the requirement for continuous ("at all times") access to systems. Instead, limit remote access to circumstances where the Central Bank of Kenya has reasonable grounds to suspect a breach of the law, require the Bank to document the reasons for such access, and provide for supervisory data to be submitted through a secure CBK platform rather than granting unrestricted system access. The stakeholder submitted that continuous remote access may infringe Articles 31 and 40 of the Constitution and exceed the safeguards in section 51D of the Central Bank Act and impose disproportionate compliance costs on smaller MFIs.

Committee's observation

The Committee agreed with the proposal by PWC.

Clause 42(1) and (2)

168. **LSK** proposed amending the proposal to provide that access under subsection (1) shall be limited to the systems and information reasonably necessary for the discharge of the Central Bank's functions under the Act and shall be subject to appropriate access controls

and audit trails. Further, information viewed, extracted or downloaded under subsection (2) should only be used for the purpose for which it was accessed, kept secure and retained only for as long as reasonably necessary. The stakeholder stated that limiting access to information necessary for supervision and requiring appropriate data safeguards would ensure proportionate oversight while protecting privacy and complying with the Constitution and the Data Protection Act, 2019.

Committee's observation

The Committee agreed with the proposal by LSK.

Clause 43

169. **CBK** proposed amending the clause by inserting a new Clause 43A as follows:

43A. Powers on anti-money laundering, combating the financing of terrorism and countering proliferation financing matters

(1) Pursuant to sections 2A, 36A, 36B and 36C of the Proceeds of Crime and Anti-Money Laundering Act (Cap. 59A), the Central Bank shall regulate, supervise and enforce compliance for anti-money laundering, combating the financing of terrorism and countering proliferation financing purposes by all reporting institutions regulated and supervised by the Central Bank and to whom the provisions of the Proceeds of Crime and Anti-Money Laundering Act (Cap. 59A) apply.

(2) In undertaking its mandate under subsection (1), the Central Bank may—

(a)vet proposed significant shareholders, proposed beneficial owners, proposed directors and senior officers of a reporting institution;

(b)conduct onsite inspection;

(c)conduct offsite surveillance;

(d)undertake consolidated supervision of an institution and its group;

(e)compel the production of any document or information the Central Bank may require for the purpose of discharging its supervisory mandate under the Proceeds of Crime and Anti-Money Laundering Act (Cap. 59A);

(f)impose monetary, civil or administrative sanctions for violations related to anti-money laundering, combating the financing of terrorism and countering proliferation financing purposes;

(g)issue regulations, guidelines, directions, rules or instructions for anti-money laundering, combating the financing of terrorism and countering proliferation financing purposes;

(h)cooperate and share information for anti-money laundering, combating the financing of terrorism and countering proliferation financing purposes; and

(i)take such action as is necessary to supervise and enforce compliance by reporting institutions in line with the provisions of the Proceeds of Crime and Anti-Money Laundering Act (Cap. 59A) and any regulations, guidelines, rules, instruction or direction made or issued thereunder

43B. Penalties for violations relating to money laundering, terrorism financing

(1) No institution, director, officer, employer, agent or any other person shall violate or fail to comply with any provision of the Proceeds of Crime and Anti-Money Laundering Act (Cap. 59A), or any regulation, guideline, rule, direction or instruction issued under the said Act or under this section.

(2)A person who violates or fails to comply with the provisions of subsection (1) shall be liable—

(a)in case of a legal person, to a penalty not exceeding five million shillings;

(b)in the case of a natural person, to a penalty not exceeding one million shillings; and

(c)to additional penalties not exceeding one hundred thousand shillings in each case for each day or part thereof during which such violation or non-compliance continues.

170. The Central Bank of Kenya submitted that the proposed provisions are contained in the current Microfinance Act,2006, at Section 36B on Powers of the Central Bank to regulate, supervise and enforce compliance for anti-money laundering, combating the financing of terrorism and countering proliferation financing, and Section 36C on penalties for violations relating to money laundering, and terrorism financing.

171. Further, these provisions were introduced to the Microfinance Act, 2006, following AML/CFT/CPF deficiencies captured in Kenya's Mutual Evaluation Report, 2022. The stakeholder submitted that these provisions have been omitted from the Microfinance Bill, 2026 and should be imported verbatim as proposed.

Committee's observation

The Committee agreed with the proposal by CBK on the need to have provisions ensuring compliance with anti-money laundering, combating the financing of terrorism and countering proliferation financing.

Clause 44 (2)

172. **PWC** proposed amending the proposal by setting a minimum period (e.g., 30 days) in remedial action notices, while allowing CBK to shorten this in cases of imminent risk to depositors. The stakeholder stated that unreasonably short timelines may undermine the right to fair administrative action under Article 47 of the Constitution.

Committee's observation

The Committee acknowledged the proposal by PWC but was of the view that some interventions may require long or short notice periods.

Clause 44 (3)

173. **LSK** proposed amending the proposal to provide that any measure imposed by the Central Bank shall be proportionate to the nature and seriousness of the default and the risk posed to the institution, its depositors or creditors. It should also make it mandatory for the Central Bank to notify the institution in writing of the measure imposed and the reasons for selecting that measure.

174. The stakeholder stated that requiring regulatory measures to be proportionate and supported by reasons would promote transparency, consistency, and fair administrative action while preserving the Central Bank's ability to manage regulatory risks.

Committee's observation

The Committee acknowledged the proposal by LSK, but it noted that the provisions in the Bill were sufficient.

Clause 45

175. **PWC** proposed amending the proposal by clarifying its relationship with the Insolvency Act and the Companies Act to ensure consistency and avoid regulatory overlap. Further, provide for the appointment of qualified private-sector liquidators, subject to approval by the Central Bank of Kenya, as an alternative to the Kenya Deposit Insurance Corporation. According to the stakeholder, the provision should provide greater clarity to uphold the principles of transparency and fair administrative action under Articles 10 and 47 of the Constitution. Further, they noted that KDIC's capacity may be strained if multiple MFIs seek voluntary liquidation simultaneously.

Committee's observation

The Committee acknowledged the proposal by PWC. The Committee, however, noted that the Bill's provisions were sufficient and that the CBK's mandate includes supervising microfinance businesses.

Clause 46

176. **ALN** proposed amending the proposal to read as follows:

"(1) Neither the Central Bank nor any officer or employee thereof nor any manager nor any other person appointed, designated or approved by the Central Bank to act on its behalf, under the provisions of this Act shall be liable in respect of any act or omission done in good faith by the Central Bank or such officer, employee, manager or other person in the execution of the duties undertaken by him; provided that the protection under this subsection shall not apply to: (a) any act or omission involving gross negligence or willful misconduct; (b) any act or omission constituting a criminal offence under this Act or any other written law; (c) any act or omission that constitutes a violation of the fundamental rights and freedoms of any person under the Constitution of Kenya, 2010; or (d) any act or omission that falls outside the scope of the lawful authority of the Central Bank or the officer, employee, or other person concerned under this Act.

(2) The Central Bank shall indemnify any officer, employee, or any other person acting on its behalf who is made liable on acts or omissions done, in good faith, and within the scope of their lawful authority, in the discharge of his or her duties."

177. **ALN** submitted that limiting immunity for the Central Bank of Kenya and its officers would promote accountability while protecting officers acting in good faith from vexatious litigation.

Committee's observation

The Committee agreed with the proposal by ALN on the need to promote accountability.

Clause 47

178. **ALN** proposed amending the clause by inserting a new sub-section immediately after paragraph (f) to read as follows:

"prohibition of predatory lending practices, which for the purposes of this section shall include: (i) charging interest rates, fees, or charges that are not disclosed in advance and in full to the borrower; (ii) imposing charges or penalties not agreed upon in the loan contract; (iii) using third-party debt collectors who employ harassment, threats, violence, or unconscionable conduct in the recovery of debts; and (iv) accessing a borrower's mobile phone contact list, call logs, messages, or social media accounts for the purpose of debt collection or credit assessment without the borrower's express consent"

179. The stakeholder stated that introducing clear statutory protections for borrowers would prohibit unfair lending practices, strengthen consumer protection, and provide more durable safeguards than administrative guidelines alone.

Committee's observation

The Committee agreed with the proposal by ALN on adding more measures to enhance consumer protection.

180. **LSK** proposed amending the proposal to require an institution, before granting a loan or credit facility, to undertake a reasonable assessment of the borrower's ability to repay the loan on the proposed terms, based on sufficient and reliable information. It is the stakeholder's view that this would help reduce over-indebtedness, default and the accumulation of non-performing loans, while allowing institutions sufficient flexibility to assess borrowers with formal or informal sources of income.

Committee's observation

The Committee acknowledged the proposal by LSK but noted this is an administrative process for all lending institutions.

Clause 53

181. **PWC** proposed amending the proposal by defining the term "organisation" in subsection 2 (b) more precisely or removing it from the list of non-outsourceable functions. Further, permit the outsourcing of non-core support functions, including human resource consulting, payroll administration, IT infrastructure, and facilities management, subject to the Central Bank of Kenya's outsourcing guidelines. The stakeholder stated that the CBK Prudential Guidelines on Outsourcing already provide an adequate framework for safe outsourcing.

Committee's observation

The Committee acknowledged the proposal by PWC but took note of the CBK Outsourcing Guidelines, 2013, which specifically list the items in 53(2).

PART VIII

Clause 53

182. **AMFI** proposed that the Bill should narrow the definition of the activities of a microfinance institution that fall within "core activities" and may not be outsourced.

Committee's Observation

The Committee acknowledged the proposal by AMFI but noted that the provisions in the Bill were sufficient. Additionally, the Committee noted the need for the Bill to align with the existing CBK Outsourcing Guidelines.

Clause 54

183. **PWC** proposed amending the proposal by replacing the requirement for prior written approval with a notification and non-objection regime for minor product changes and fee adjustments. Additionally, prior approval should be reserved for new product categories or products presenting significant risk. Further, provide that where the Central Bank of Kenya does not object within 30 days of notification, the proposed changes shall be deemed approved. It is the stakeholder's view that requiring CBK approval for every fee adjustment would create unnecessary delays, reduce the sector's ability to respond to customer needs, and disadvantage MFIs.

Committee's observation

The Committee acknowledged the proposal by PWC however, it noted that the provisions of the Bill were sufficient for effective management of microfinance businesses.

184. **LSK** proposed amending the clause to require the Central Bank, within thirty days of receiving a request for approval, to approve or reject the request and communicate its decision to the institution in writing together with reasons. The stakeholder stated that prescribing a decision-making timeline and requiring written reasons for rejection would promote certainty, transparency, and fair administrative action while preserving the Central Bank's regulatory oversight.

Committee's observation

The Committee agreed with the proposal by LSK on requiring timelines.

185. **EY** noted that while the objective of regulatory oversight is acknowledged and supported, the absence of prescribed timelines for consideration of applications may result in administrative delays and regulatory uncertainty. This is inconsistent with the principles of expeditious and efficient administrative action under Article 47 of the Constitution and the Fair Administrative Action Act. They proposed amending the clause to read as follows;

> *"2) The Central Bank shall communicate its decision on an application made under subsection (1) within thirty days of receipt of a complete application." "Where the Central Bank does not communicate its decision within the period specified under subsection (1A), the application shall be deemed approved."*

Committee's observation

The Committee agreed with the proposal by EY on providing a timeline for approving applications for approval.

186. **AMFI proposed inserting clause 54(4) as follows**

"The Central Bank of Kenya shall provide approval on an application for a new product or service made under this Act within ninety (90) days of lodging the same."

Committee's observation

The Committee agreed with the proposal by AMFI on providing a timeline for approving applications for approval.

187. **KPMG** Kenya proposed amending the provision to require:

i. Prior notification for routine product introductions and amendments; and

ii. Prior approval only for products, services or pricing changes that raise material prudential, consumer protection or systemic risk considerations.

188. According to the stakeholder, requiring prior approval for every new product, service or fee adjustment may reduce market responsiveness, slow innovation and increase compliance costs. A risk-based approach would preserve regulatory oversight while promoting innovation, competition and financial inclusion.

Committee's observation

The Committee acknowledged the proposal by KPMG however, it noted that the provisions of the Bill were sufficient.

New Provisions

189. **AMFI** proposed that the Bill should Include a provision on limits to the amount of interest recoverable, taking into account the special operational requirements of microfinance institutions and include principles to guide the Central Bank's exercise of its discretion when deciding whether to approve an institution's outsourcing of its non-core activities.

Committee's Observation

The Committee acknowledged the proposal of AMFI however, it noted that interests are a matter of contractual agreements.

190. **AMFI** proposed that the Bill should include lender protection provisions similar to consumer protection provisions. Additionally, the institution, through its officers or agents, should also have a provision where they are protected from customers who fail to treat them fairly when exercising their collection/ recovery process.

191. Further, the Bill should require CBK to undertake public participation before adjusting fees, elaborate on specific penalties for specific breaches of prudential regulations and provide a timeline on the approval of new products to help promote innovation and maintain competitive advantage.

Committee's Observation

The Committee acknowledged AMFI's proposal and noted that these provisions can be handled administratively.

Clause 56

192. **PWC** proposed amending the clause by providing a transitional period for existing non-performing loans to avoid retrospective application. Further, review the proposed cap to ensure it is appropriate for different loan types and takes into account the time value of money, particularly for longer-duration loans. The stakeholder stated that applying the provision retrospectively to existing loans could cause financial distress to MFIs and adversely affect their capital adequacy.

Committee's observation

The Committee agreed with the proposal of PWC.

Clause 58

193. **PWC** proposed amending the proposal by limiting the prohibition to deposit-taking activities while expressly permitting legitimate cash collateral arrangements where the funds remain in the borrower's name. Further, distinguish between accepting deposits as a banking activity and holding security as a prudent risk management measure. The stakeholder stated that, while the provision seeks to prevent non-deposit-taking entities from engaging in disguised deposit-taking, a blanket prohibition on all forms of cash collateral is overly broad and may unnecessarily restrict legitimate collateral-based lending.

Committee's observation

The Committee acknowledged the proposal by PWC but noted that non-deposit taking institutions are regulated by the CBK in a separate legal framework.

194. **CBK** proposed the deletion of this provision so as to align the Microfinance Bill with existing provisions in the CBK Act and in line with their submission on proposed amendments to Clause 2 of the Bill.

Committee's Observation

The Committee agreed with the proposal by CBK.

195. **AMFI** proposed deleting the marginal note and replace it with Collateral and further replace clause 58 (1) with the following—

"A person conducting microfinance business shall be entitled to take any one or more of the following as collateral:

(a) Immovable property in the Republic of Kenya;
(b) Chattels and movable property assets registered under the Movable Property Securities Act;
(c) Shares and other securities listed on the Nairobi Securities Exchange;
(d) Credit Guarantees (whether partial or full); and
(e) Such other assets (including intangible assets) for which there exists a recognized collateral registry in the Republic of Kenya."

Committee's observation

The Committee acknowledged and agreed with the proposals of AMFI.

Clause 58(1)

196. **KBA** proposed amending the provision to clarify that while non-deposit taking microfinance institutions shall not mobilize deposits from the public, they may receive loan-linked cash collateral solely for the purpose of securing credit facilities, subject to regulations prescribed by the Central Bank of Kenya. Such collateral should be fully disclosed, segregated from institutional funds, not used for financial intermediation, and refunded upon discharge of the customer's obligations. According to the stakeholder, prohibiting cash collateral may undermine established credit risk management practices, increase the cost of credit, and reduce access to finance for underserved borrowers, and therefore proposed a limited exception supported by appropriate regulatory safeguards.

Committee's observation

The Committee acknowledged the proposal by KBA but noted that non-deposit taking institutions are regulated by the CBK in a separate legal framework.

Clause 62

197. **AMFI** proposed that the Bill should include provisions expressly recognizing the difference between CBK's oversight of Microfinance Banks and its oversight of Credit Only Institutions.

Committee's Observation

The Committee acknowledged with the proposal of AMFI for a clear distinction between the two different classes of microfinance business.

Clause 63

198. **AMFI** submitted that the Bill should specify what is to be done during the 90 days before the commencement of the proposed law or otherwise provide for immediate commencement of the proposed law upon enactment.

Committee's observation

The Committee agreed with the proposal by AMFI on the commencement of the Act upon enactment.

199. **PWC** proposed amending the transitional provisions by preserving the validity of non-deposit-taking microfinance institution licences issued under the current Act and providing that existing Regulations and Central Bank of Kenya Guidelines remain in force until replaced. Further, include a comprehensive transitional schedule with clear compliance timelines and a grandfathering mechanism for institutions that are unable to immediately meet the new requirements. It is the stakeholder's view that existing institutions require clear guidance on which requirements take immediate effect and which are subject to transitional periods, as merely preserving existing licences is insufficient where the Bill repeals and replaces the entire Act.

Committee's observation

The Committee agreed with the proposal of PWC on providing for a comprehensive transitional schedule.

First Schedule

200. **PWC** proposed amending the schedule to adopt a tiered minimum capital requirement linked to the categories of business. Additionally, extend the transition period to at least seven (7) years with clear interim milestones, providing a mechanism for institutions unable to meet the capital threshold to transition to a lower-tier licence, and require the publication of an impact assessment supporting the proposed capital requirements. The stakeholder stated that replacing the current tiered capital framework with a single KES 250 million threshold removes regulatory flexibility, and may force smaller MFIs to consolidate or close; reduce access to financial services in underserved areas; and is inconsistent with international best practice on proportionate capital requirements.

Committee's observation

The Committee agreed with the proposal by PWC to provide a tiered phase to attain minimum core capital.

201. **AMFI** proposed inserting the following risk classification under the First Schedule.

Part B (I)- RISK CLASSIFICATION FOR MICROFINANCE BANKS

In the determination of the classification for loans and advances, performance will be the primary consideration. The performance will generally show the repayment capability of the borrower. All loans and advances should be classified by institutions according to the following criteria—

Days at Risk (Number of days past due)	**Classification**
Current and up to date in payments of principal and interest 1-29 days.	Normal
30 to 90 days past due.	Watch
Over 90 days up to 180 days past due.	Substandard
Over 180 days up to 360 days past due.	Doubtful
Over 360 days.	Loss

PART B(II)— PROVISIONIG FOR MICROFINANCE BANKS

Classification	**Provision**
Normal.	1%
Watch.	3%
Substandard.	20%
Doubtful.	75%
Loss.	100%

The categories under normal and watch classifications shall be applied against the gross balance of a loan regardless of whether the loan is analysed individually or as part of a pool of loans. For non-performing categories the percentages will be applied to the net balances after deduction of realisable value of security and interest in suspense.

Committee's observation

The Committee agreed with the proposal by AMFI noting that this will align with the CBK Prudential Guidelines.

Second Schedule

202. **ALN** proposed amending the Second Schedule to the Bill by inserting the following: "Competition Authority of Kenya; Office of the Data Protection Commissioner; and Such other regulatory authority established by an Act of Parliament and specified by the Cabinet Secretary by notice in the Gazette for the purposes of this Act." According to the

stakeholder, the Office of the Data Protection Commissioner and the Competition Authority of Kenya should be included in the Second Schedule to strengthen regulatory coordination on data protection, mergers and acquisitions, and consumer protection.

Committee's observation

The Committee agreed with the proposal by ALN, noting the importance of listing authorities relevant to consumer and data protection and the audit of government-owned institutions.

New Proposal

203. **PWC** proposed inserting a clause incorporating equivalent anti-money laundering and counter-terrorism financing (AML/CFT) provisions or an express cross-reference confirming that the Central Bank of Kenya's AML/CFT supervisory powers under the Proceeds of Crime and Anti-Money Laundering Act, Cap. 59A continue to apply to institutions licensed under this Act. According to the stakeholder, there should be no supervisory gap during the transition from the old Act to the new Act.

Committee's observation

The Committee agreed with the proposal by PWC on incorporating anti-money laundering and counter-terrorism financing (AML/CFT) provisions.

CHAPTER FOUR

4 COMMITTEE OBSERVATIONS

The Committee made the following observations:

Principal object of the Bill

204. The Bill seeks to repeal the Microfinance Act, Cap. 493C (which came into force in 2008) and replace it with the provisions of the current Bill to align it with the evolving banking business and institutions offering microfinance banking services and to provide a safe and sound environment for microfinance banks.

Retention of provisions on compliance with the Proceeds of Crime and Anti-Money Laundering Act (Cap. 59A)

205. The Microfinance Act, Cap. 493C, which the Bill seeks to repeal, contains sections 36B and 36C which provide important safeguards on anti-money laundering, combating the financing of terrorism and countering proliferation financing matters. The Bill has inadvertently omitted the provisions which had been passed in the Anti-Money Laundering and Combating of Terrorism Financing Laws (Amendment) Act, 2023. Thus, there is need to provide for them in the Bill.

Clarity on the applicable regime for non-deposit-taking businesses

206. The Bill brings non-deposit taking businesses within its ambit. However, Business Laws (Amendment) Act, 2024, had amended the Central Bank of Kenya Act by expanding the regulatory scope of the Digital Credit Providers to all Non-Deposit Taking Credit Providers (NDTCP). The term "digital" in the CBK Act was therefore replaced with the term "non deposit taking" to address confusion by credit providers, especially those providing credit services through physical branches.

207. Therefore, there was need to amend the Bill to remove non-deposit taking businesses from the scope of the Bill so that its existing regulation under the Central Bank of Kenya continues to apply.

Transitional provisions

208. There is need for the Bill to be amended to provide for transitional mechanisms to ensure that loans advanced under the Microfinance Act, Cap. 493C, continue to be valid and enforceable upon enactment, and that borrowers and lenders are not prejudiced by the change in the law.

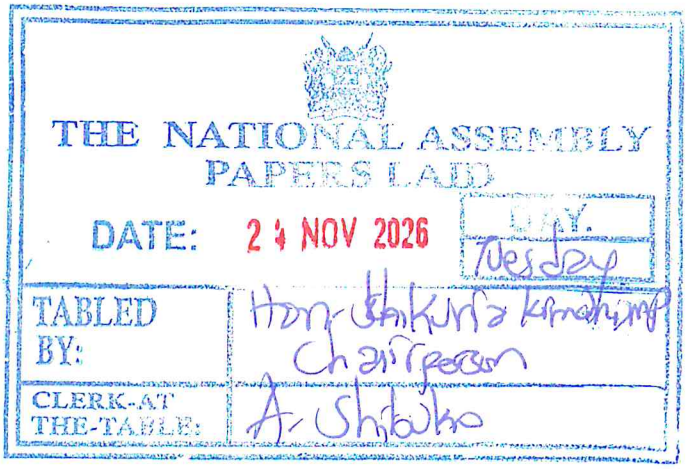
CHAPTER FIVE

5 COMMITTEE RECOMMENDATION

209. The Committee, having considered the Microfinance Bill (National Assembly Bill No. 9 of 2026), recommends that the House **approves the Bill with amendments.**

SIGNED.....**DATE**24th Nov, 2026

HON. FCPA KURIA KIMANI, CBS, MP
CHAIRPERSON
DEPARTMENTAL COMMITTEE ON FINANCE AND NATIONAL PLANNING



THE NATIONAL ASSEMBLY
THIRTEENTH PARLIAMENT – FIFTH SESSION - 2026
DEPARTMENTAL COMMITTEE ON FINANCE AND NATIONAL PLANNING

ADOPTION LIST

REPORT ON THE MICROFINANCE BILL, (NATIONAL ASSEMBLY BILL NO. 54 OF 2026)

We, the Members of the Departmental Committee on Finance and National Planning have pursuant to Standing Order 199, adopted this Report and affix our signatures to affirm our approval and confirm its accuracy, validity and authenticity today, ***Thursday, 29th October 2026.***

S/NO.	NAME	SIGNATURE
1.	HON. FCPA. KURIA KIMANI, CBS, MP - **CHAIRPERSON**	
2.	HON. FCPA (AMB). BENJAMIN KIPKIRUI LANGAT, MP – **VICE CHAIRPERSON**	
3.	HON. KALUMA PETER OPONDO, CBS, MP	
4.	HON. GEORGE SUNKUYIA RISA, MP	
5.	HON. FCPA JOSEPH MAERO OYULA, OGW, MP	
6.	HON. ANDREW ADIPO OKUOME, MP	
7.	HON. DAVID MWALIKA MBONI, MP	
8.	HON. CHIFOROMODO MANGALE MUNGA, MP	
9.	HON. GATHONI WA MUCHOMBA, HSC, MP	
10.	HON. (CPA) JULIUS KIPLETTING RUTTO, MP	
11.	HON. PAUL KIBICHIY BIEGO, MP	
12.	HON. UMUL KER SHEIKH KASSIM, MP	
13.	HON. DR. SHADRACK MWITI ITHINJI, MP	
14.	HON. DR. JOHN ARIKO NAMOIT, MP	
15.	HON. MOHAMED SOUD MACHELE, MP	