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Doing Business in Kenya

MICROFINANCE BILL, 2026

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Kenya Proposes Major Overhaul of Microfinance Bank Regulation

The Microfinance Bill, 2026, published on 10 March 2026, proposes to repeal and replace the Microfinance Act, 2006. If passed, it would significantly change how microfinance banks are regulated in Kenya.

The Bill would move microfinance banks closer to the regulatory standards that apply to commercial banks. In practical terms, this means higher capital requirements, stricter governance rules, closer supervision by the Central Bank of Kenya, and stronger consumer protection.

If enacted in its current form, the law would come into force 90 days after publication as an Act.

Which institutions would be affected?

The Bill would apply mainly to microfinance banks, also known as deposit-taking microfinance institutions, licensed by the Central Bank of Kenya. It would also apply to their holding companies, groups, agents, and outsourced service providers. The Cabinet Secretary may also bring specified non-deposit-taking businesses within the scope of the law.

The Bill would not apply to commercial banks, building societies, the Kenya Post Office Savings Bank, SACCOs, or mortgage refinance companies, unless they act as agents under the Bill.

What would change?

The Bill introduces a stricter framework for capital, governance, supervision, consumer protection, and enforcement. The main proposed changes are set out below.

1. Higher capital requirements

Microfinance banks would be required to hold minimum core capital of KES 250 million. Institutions would have five years to meet this requirement.

They would also be required to comply with stronger capital ratios, including:

- core capital of at least 10% of risk-adjusted assets;
- core capital of at least 8% of deposit liabilities; and
- total capital of at least 12% of risk-adjusted assets.

This would be a significant increase from the current requirements and may require some institutions to raise additional capital.

2. Group-wide supervision

The Bill introduces the concept of group-wide supervision. This means the CBK would not only look at the licensed microfinance bank, but also at its wider group structure. The Bill recognises non-operating holding companies and requires consolidated reporting at group level. It also requires a holding company to support the microfinance bank as a source of financial strength.

This would shift supervision from a single-institution approach to a broader group-level approach.

3. CBK approval for products and charges

Microfinance banks would need the CBK's prior written approval before launching a new product, making a material change to an existing product, or introducing or increasing a charge. Before lending, institutions would also be required to disclose the total cost of credit. They would also need to give borrowers 30 days' notice before changing terms or interest rates.

These measures are intended to improve transparency and protect customers from unexpected costs.

4. Limits on recoveries from non-performing loans

The Bill introduces an in duplum-style cap on recoveries from non-performing loans. This means that, once a loan becomes non-performing, a microfinance bank would only be able to recover:

- the outstanding principal;
- interest capped at an amount equal to the outstanding principal; and
- reasonable recovery costs.

The cap would also apply to existing loans. This is intended to protect borrowers from excessive debt accumulation, but it may also affect how institutions price and manage higher-risk lending.

5. Real-time CBK supervision

Microfinance banks would be required to give the CBK secure online access to their systems. This would allow the CBK to view, extract, and download data directly from the institution's systems. This is a major shift from periodic supervision to more continuous monitoring. It would also require institutions to invest in stronger data systems, cyber security, and internal controls.

6. Stronger governance standards

The Bill proposes stricter governance requirements for microfinance banks. Boards would be required to have at least five directors. Three-fifths of the board would need to be non-executive directors, and

at least one-third would need to be independent directors. The chairperson would need to be an independent non-executive director. All directors would be subject to CBK fit-and-proper vetting. Significant shareholders would also be restricted from holding executive or senior management roles.

These changes are intended to strengthen independence, accountability, and oversight.

7. Stronger governance standards

The Bill introduces prompt corrective action measures, including capital restoration plans where an institution is undercapitalised or in financial difficulty. It also gives the Kenya Deposit Insurance Corporation a central role in statutory management and liquidation. In addition, the CBK would have power to impose monetary penalties. The CBK would also be able to recover those penalties by debiting the institution's account held at the CBK.

Anticipated challenges

The Bill is likely to create several practical and commercial challenges for the sector.

Recapitalisation and consolidation

The higher capital requirements may be difficult for smaller institutions to meet. Some institutions may need to raise new capital, merge with stronger players, or exit the market. This could reshape competition in the sector.

Group restructuring

Institutions with complex ownership structures may need to reorganise their groups to comply with the new holding company and consolidated supervision requirements. This may be costly and time-consuming.

Higher compliance costs

The product approval, fee approval, disclosure, and notice requirements would increase the operational burden on institutions. They may also reduce pricing flexibility and slow down product innovation, especially for smaller players.

Impact on loan recovery and pricing

The in duplum cap may affect the economics of higher-risk lending. Institutions may need to review how they price risk, provide for non-performing loans, and manage legacy loan portfolios.

Data governance and cyber security

Real-time CBK access to institutional systems raises important questions around confidentiality, data protection, cyber security, and system readiness. Institutions will need to invest in reliable and secure technology.

Regulatory uncertainty

The Bill gives the CBK wide discretion to make rules, grant approvals, and supervise institutions. This may create some uncertainty during implementation, especially if regulations and guidelines are not issued early enough.

Commercial Impact

The Bill marks a clear shift towards stronger regulation and closer conduct oversight of Kenya's microfinance sector. It brings microfinance banks closer to the standards applied to commercial banks.

In the short to medium term, institutions may face pressure from recapitalisation, restructuring, higher compliance costs, and tighter conduct rules. However, the reforms may also support a stronger and more trusted sector.

A stronger capital base and closer supervision could improve depositor confidence and support financial stability. Better governance and risk management may also help institutions attract funding, enter into strategic partnerships, and access institutional investors.

The Bill's focus on consumer protection, transparency, and better credit information may also improve customer confidence in the sector.

Institutions that assess the Bill early, review their capital position, strengthen governance, and invest in systems will be better placed to manage the transition if the Bill becomes law.

ABOUT KN

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