



LICENSING REQUIREMENTS FOR CREDIT ONLY AND/OR DEPOSIT-TAKING MICROFINANCE INSTITUTIONS

Microfinance institutions are licensed under the **Financial Institutions Act of 2012 (FIA)** and the **Financial Institutions (Credit Only and Deposit Taking Microfinance Institutions) Regulations 2014 as Amended in 2018**. These two sets of law provide primary legal requirements as well as the business conduct for the MFIs once a licence is issued. Legal requirements for licensing are divided into three main sections, being:

- i. Company information;
- ii. Directors' information, and
- iii. Governance (Company policies and internal functions).
- iv. Compliance

Business conduct and other legal provisions form part of compliance when the business is continuing. The following table provides guidance in terms of documents to be provided under each tier. Tier 1 is for deposit taking MFIs while tiers 2 and 3 are for credit-only MFIs. Tier 2 is for credit-only MFIs which have either issued debt instrument on a public exchange Or has M10,000,000 or more in assets while Tier 3 is a credit-only with assets below M10,000,000.00. Please refer to Schedule VI for more information in order to determine with tier your institution is categorized in.

Table 1: Requirements for Licensing - Deposit Taking and Credit-Only Micro-Finance

	Tier 1	Tier 2	Tier 3
1. Company information			
<ul style="list-style-type: none"> • Company incorporation documents (Public Company) as per the Company's Act; 	YES	YES	YES
<ul style="list-style-type: none"> ○ Specify the objects e.g. "Microfinance". 			
<ul style="list-style-type: none"> • Prior consent of home country supervisor in terms of 6(1) of FIA; 	YES	YES	YES
<ul style="list-style-type: none"> • Fill application forms (Schedules I, and II) completely as per Regulation 6(1) of the Microfinance Regulations. Duly signed by a principal or promoter; 	YES	YES	YES
<ul style="list-style-type: none"> • Pay a non-refundable investigation fee as per Schedule IV; 	YES	YES	YES
<ul style="list-style-type: none"> • Submit a detailed business plan as per Section 6(1) of FIA and Regulation 7 of the Microfinance Regulations; 	YES	YES	NO
<ul style="list-style-type: none"> • A set of audited financial statements as per Section 6 (1)(d) of the FIA (in case of already existing company); 			



	Tier 1	Tier 2	Tier 3
○ Audited Statements	YES	YES	NO
○ Financial Statements by a Certified Accountant	NO	NO	YES
• Proof of capital availability. In case of a start-up microfinance, shareholders must submit a letter of commitment to inject capital into the business and attach recent Bank Statements	YES	YES	YES
• Tax Clearance	YES	YES	YES
2. Directors' Information			
• Fit and proper assessment questionnaire;	YES	YES	YES
• Two character reference letters (for each one of the above outlined persons);	YES	YES	YES
• Financial reference letters from individuals' personal bank as explained in Schedule III of the Microfinance Regulations;	YES	YES	YES
• Schedule III for each person;	YES	YES	YES
• Certified copies of passports or National Identity Document;	YES	YES	YES
• Police Clearance for each of the directors;	YES	YES	YES
• Tax clearance for each of the directors; and	YES	YES	YES
• Certified statement of assets and liabilities for each of the directors.	YES	YES	YES
3. Governance (Company policies and internal functions)			
The following requirements must be met as a prerequisite to licensing:			
• Must have a board of directors consisting of at least 5 directors headed by chairman who is a non-executive director as per Regulation 45(1);	YES	YES	NO
• Composition of Internal Audit Committee as per Regulation 46;	YES	NO	NO
• Internal audit function Regulation 46 (2)	YES	YES	NO
• Individual shareholding or total shareholding of a group of related parties is limited to not more than 25 % Regulation 40;	NO	NO	NO
• Must have a Board Credit Committee appointed by the board and comprised of at least 3 board members as per Regulation 47;	YES	NO	NO
• Company's directors limited to directorship in not more than one microfinance institution as per Regulation 45(3);	YES	YES	NO



	Tier 1	Tier 2	Tier 3
<ul style="list-style-type: none"> Appointed a finance manager as per Regulation 52; 	YES	YES	NO
<ul style="list-style-type: none"> Finance Function: a person who shall be responsible for finance function must submit: <ul style="list-style-type: none"> Copies of Membership of Lesotho Institute of Accountants and Practicing Certificate Service Level Agreement (If out sourced) Fit and proper assessment questionnaire Two-character reference letters Financial reference letters from individuals' personal bank as explained in Schedule III of the Microfinance Regulations Schedule III Certified copies of passports or National Identity Document Police Clearance Tax clearance; and Certified statement of assets and liabilities 	YES	YES	YES
<ul style="list-style-type: none"> Compliance Function: a person who shall be responsible for compliance function must submit: <ul style="list-style-type: none"> Service Level Agreement (If out sourced) Fit and proper assessment questionnaire Two-character reference letters Financial reference letters from individuals' personal bank as explained in Schedule III of the Microfinance Regulations Schedule III Certified copies of passports or National Identity Document Police Clearance Tax clearance; and Certified statement of assets and liabilities 	YES	YES	YES
<ul style="list-style-type: none"> A set of risk management manuals and policies with regard to screening, approval, monitoring and collection of loans must be in place as per Regulation 53; 	YES	YES	NO



	Tier 1	Tier 2	Tier 3
<ul style="list-style-type: none"> A set of Anti-Money Laundering and Counter Financing of Terrorism risk based management Manuals, Policies and Procedures in terms of Money Laundering and Proceeds of Crime Act 2008 as amended 2016 and Money Laundering and Proceeds of Crime Regulations 2017. 	YES	YES	YES
4. Compliance			
The following requirements must be met as a matter of compliance when doing business			
<ul style="list-style-type: none"> Submit the prescribed prudential reports to the Commissioner every quarter as per Regulation 62; 	YES	YES	YES
<ul style="list-style-type: none"> Make use of the services of a credit bureau as per Regulation 58; <ul style="list-style-type: none"> Applicant shall have Loan Management System configured with Credit Bureau (ability to report issued loans to credit bureau). Applicant shall have Credit Check system (ability to assess client's reported existing credit facilities) 	YES	YES	YES
<ul style="list-style-type: none"> Engage external auditor as per Regulation 54; 	YES	YES	NO
<ul style="list-style-type: none"> Observe consumer protection provisions of the law (Regulation 11); <ul style="list-style-type: none"> Develop Consumer Complaints and Redress Procedure 	YES	YES	YES
<ul style="list-style-type: none"> Renew licence annually Regulation 9(3) and (4); 	NO	NO	NO
<ul style="list-style-type: none"> Pay annual fee 	YES	YES	YES
<ul style="list-style-type: none"> Maintain 15% of total liabilities in liquid assets (Regulation 37); 	YES	NO	NO