KENYA

Evolution of the political, macroeconomic and financial context. Updates on the microfinance sector and on the regulation and supervision framework.

Last news

- Equity Bank launched a mobile banking product in Q2 2008 to allow its 2.7 ml account holders to perform transactions without a fixed point of sale terminal. CfC Stanbic, NIC Bank, Co-operative Bank of Kenya and National Bank of Kenya also offer mobile banking services. In late September Equity Bank also confirmed the approval of both the Central Bank of Kenya and the Bank of Sudan to open business in South Sudan by the end of 2008. The bank plans to open branches in Juba, Malakal, Yambyo, Wau, Kaya and Nimule.
- Fina Bank, a Kenya-based firm targeting the SME sector, is due to open its first Uganda branch in early October as part of its strategy to have a regional presence in all of the East African bloc. The bank currently operates through 8 branches in Kenya, five in Rwanda, and plans to open in Tanzania and Burundi. It will be the 3rd Kenyan bank to enter the market after KCB and Equity Bank which currently operates as Uganda Microfinance Ltd.
- Competition among money transfer services in Kenya is rising as demonstrated by MoneyGram International revision of its rates downward in September, from KSH 480 to KSH 300 for transfers below KSH 4,000. Safaricom's M-Pesa, Zain's SokoTele, Postapay, Western Union and Fina Bank all offer transfer services on the competitive market.
- Kenya was named as the only East African focus country in the recently launched LeapFrog Investments, the world's first microinsurance-focused investment firm that plans to invest US$100 ml in the next 10 years.
- Fitch's Rating Agency is expected to visit Kenya in October to review the country's rating (currently "B+" on a negative outlook).
- The Co-operative Bank IPO is going ahead as planned for Oct. 20th despite hesitation on the part of Nairobi Stock Exchange directors on the right timing for the offer due to the current global market crisis. The IPO is set to be the 2nd largest in NSE history, behind the Safaricom offer from earlier this year.
- The IFC recently opened a new Regional Office for Eastern and Southern Africa in Nairobi. The office is designed to oversee operations in 25 countries and spearhead the IFC's efforts to help restructure Africa's banking industry. The office is led by newly appointed Director, Jean Philippe Prosper.
- The Bill and Melinda Gates Foundation recently granted Catholic Relief Services (CRS) East Africa office US$8 ml to support the SILC microfinance program expansion throughout Kenya, Tanzania and Uganda.
- SACCO Fund Round II, a rural SACCO's restructuring facility run by FSD Kenya and WOCCU SACCO Cap Kenya, will begin its 2nd round of disbursement in Oct.08.
- Jamii Bora, one of the leading Kenyan MFI's, recently acquired a stake in local bank City Finance Bank Ltd. in a possible move to side-step applying under the new MFI deposit-taking regulations.
- The Swedish Cooperative Center (SCC), Cooperative Insurance Company (CIC) and the Kenyan NSSF have joined together to launch one of the first large-scale public-private insurance delivery partnerships in Africa. The consortium plan to roll-out three comprehensive insurance products nationwide as part of the Microinsurance Innovation Facility supported by the ILO and the Gates Foundation.
- Since the Microfinance Regulations came into effect on May 2, 2008, only 2 MFIs have deposited the documentation necessary to transform into a regulated deposit-taking microfinance institution.
- Nearly 15 Kenyan MFIs will have undergone a rating exercise by the end of 2008, making it the most active year to date and over doubling the number of ratings completed in 2007.

Political context

The grand coalition government formed between President Mwai Kibaki's PNU party and the opposition ODM led by Prime Minister Raila Odinga in April 2008 following the December 2007 post-election turmoil remains in power and is scheduled to last until 2012. While there is no certainty that the coalition government will complete its four year tenor, the relative balance of parliament coupled with the inherent risk to both parties should the coalition collapse ensures relative stability for the time being. Nevertheless, both parties continue to vie for influence and anti-corruption measures remain to be truly implemented, despite the recent suspension of the finance minister, Amos Kimunya, due to alleged graft charges. Land reform will also remain a contentious issue for both parties; while the ODM's potentially over-ambitious plan to draft and pass a new constitution within a year could bring further controversy. The political, economic and social instability of Q1 2008 has largely subsided due in part to the recent economic resurgence; however, continued inflationary pressure, particularly connected to rising food and oil prices, remains a threat to the stability achieved in the second half of 2008.

Macroeconomic context

Kenya

Macroeconomic Indicators	Dec-05	Dec-06	Dec-07	Mar-08
Exchange rate in US$ (end of period)	72.4	69.4	61.0	62.8
Inflation rate (end of period)	7.6%	15.6%	8.6%	22.0%
Deposit rate	5.1%	5.1%	5.2%	5.1%
Lending rate	12.9%	13.6%	13.3%	13.9%
Real GDP growth	5.8%	6.4%	7.0%	4.1%
GDP per head (US$)	587	685	809	840

Source: International Finance Statistics, EIU

Early predictions of decelerated economic growth in Kenya for 2008 following the post election crisis disruptions have been largely confirmed by events in the first half of the year, even if growth is expected to pick up again in 2009 pending continued political stability. Recent EIU forecasts confirm 2008 growth at around 4% while expectations for 2009 show only a slight increase back up to around 4.5%. Growth will be led by strong government investment in infrastructure, power, transportation and telecommunications, which according to the updated Vision 2030 unveiled in June, are central tenants of the government's policy framework. The first five-year phase (July 2008 – July 2013) of the program envisions an US$25 bn investment. Downside risks remain, however, as the rising food and fuel prices coupled with the weakening global demand due to the ongoing sub-prime crisis will continue to exert notable pressure. Year on year inflation climbed to 8.2% in August, continuing the upward trend on the year and the threat of negative real interest rates, though pressure should subside in 2009. The Kenyan Shilling has continued to weaken against the dollar and will likely continue its depreciation through 2008, averaging KSh66.9:US$1 on the year and falling further to over KSh70:US$1 in 2009.

Financial sector

As of May 2008, the financial sector includes 44 commercial bank and 2 mortgage finance companies as well as 109 forex bureaus. First Community Bank Ltd. entered the sector as a new operator in May 2008. Overall, the Kenyan financial sector is performing well in the face of the challenging operating environment brought about by the post-election crisis. Profitability was up nearly 36% from May 2007, standing at KSh 59 bn at May 2008, while return on equity and return on assets stood at 33.7% and 3.3%, respectively. According to a recent report on the banking sector[1], loan book growth was moderate in 2007 (19%), yet particularly strong in the personal lending/mortgage lending sector, potentially pushing higher risk for the sector which still lacks a credit bureau. The rise in non-performing loans (NPLs) foreseen in the last bulletin has been realized as gains made during the first half of 2008 were partially negated by the effects of the crisis. Nevertheless, the ratio of gross NPLs to gross loans decreased from 19.4% in May 2007 to only 9.5% in May 2008. Bank liquidity has also decreased slightly, with the ratio of net liquid assets to net deposit liabilities at 41% in May 2008 (down from 43.6% in May 2007). While banking sector liquidity is still rated strong, the declining ratio reflects the liquidity tightening that stemmed from the Safaricom IPO realization. The National Bank of Kenya is the next privatization target for the government and is expected to have 25% go to a strategic investor before 40% is floated on the stock exchange. The Monetary Policy Committee of the Central Bank of Kenya (CBK) increased the Central Bank Rate by 25 basis points to 9% in June and further maintained the 9% rate in August.

Microfinance sector

While the sector continues the recovery efforts following the post-election crisis of early 2008, signs of recovery are evident as the first two applications have been submitted to the Central Bank of Kenya for license as deposit-taking institutions, and the Association of Microfinance Institutions Kenya (AMFI) continues to grow, currently registering over 40 members with 6 new applications pending BoD approval. FSD Kenya continues to support the sector through various capacity building initiatives (e.g. SACCO CAP) and specific support to institutions undergoing the transformation process (e.g. KWFT, Faulu Kenya, JTL, Kenya Post Office Savings Bank). Unitus, the US-based NGO that partners with MFIs through its microfinance "accelerator" model, plans to invest in one new Kenyan MFI in 2008 and to take on four additional Kenyan partner MFIs in 2009. To date, Jamii Bora had been Unitus' only African partner organization (since 2004). The organization also plans open a local East Africa office in the medium term and partner with 5 new institutions in Tanzania as well.

Blue Financial Services has continued its spread across the African continent and is making a strong push as a new entry in the Kenyan microfinance market. Blue acquired Jaribu Credit Traders', a Kenyan microlender, and its loan portfolio and 13 branch infrastructure in November 2007. Although largely concentrated in consumer lending, Blue seeks to brand itself as a microfinance player and is actively seeking membership to AMFI.

Changes in the regulation and supervision

The Banking (Credit Reference Bureau) Regulations of 2008 were launched on the 22nd September. The regulations set up a framework for the establishment and operation of Credit Reference Bureaus in Kenya in order to facilitate credit information sharing among providers licensed under the Banking Act (namely commercial banks and mortgage finance companies). As of yet, other credit providers such as MFIs, SACCOs, utility companies, hire purchase companies and retail stores will not be included through the CRBs. The regulations permit the Central Bank of Kenya to license and supervise the Bureaus and will become operational from 1 February 2009. The newly release CRB regulations follow the May 2008 issue of the Microfinance prudential regulations pertaining to licensed deposit-taking institutions and signify a positive step in setting up a comprehensive regulatory framework for the sector. Nevertheless, to date only 2 MFIs have submitted the necessary documentation to the CBK to apply for the deposit-taking license, despite the fact that over 20 institutions have applied to the CBK for a name change (one of the prerequisites for the transition). As the Microfinance Regulations set forth a one year period under which to apply for licensing, it is expected that many institutions will submit the applications within Q1 2009. A possible holdup to some of the application submissions include the regulatory maximum of 25% shareholding by any shareholder which has forced many MFIs to consider changing and adapting their current ownership structure (e.g. KADET, OI-WEDCO, etc.). Faulu Kenya and SMEP are currently considered the front-runners to receive the first deposit-taking licenses. Meanwhile, Jamii Bora may be avoiding the deposit-taking licensing process altogether by acquiring a stake in a local commercial bank (City Finance Bank Ltd.) through which it could feasibly become a licensed commercial bank.

The SACCOs Bill 2008 was expected to be discussed and approved by parliament by October 2008. However, recent delays by MP's have led some industry actors to predict a delay into late 2008 or even 2009.

[1] Fitch, Kenyan Banking Sector: Annual Review and Outlook 2008.