REPUBLIC OF KENYA

SECTOR PLAN FOR FINANCIAL SERVICES 2013 – 2017

The Principal Secretary
The National Treasury
Harambee Avenue
P. O. Box 30007-00100, Nairobi, Kenya
Tel: +254-020-2252299
website:www.treasury.go.ke

©Government of the Republic of Kenya 2013

STATEMENT BY THE CABINET SECRETARY MINISTRY OF DEVOLUTION AND PLANNING

In keeping with the decision that Kenya Vision 2030 be implemented through five year Medium Terms the Government successfully launched the Second Medium Term Plan (MTP 2013-2017) in October 2013. The Ministry of Devolution and Planning then embarked on the process of preparing the second round of Kenya Vision 2030 Sector Plans detailing policies, programmes and projects to be implemented in each sector. A total of twenty one Sector Plans have therefore been produced based on the work of nineteen medium term plan sector working groups and three thematic working groups formed to prepare detailed plans as background documents for the Second MTP).

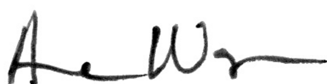
The Sector Plans outline in greater detail specific plans for implementation in each sector during the 2013-17 period. The Plans have been prepared through a participatory and inclusive process involving representatives from the government, development partners, private sector, NGOs, civil society, faith based organizations, professional associations, research institutions, and organizations representing women and youths, among others. Apart from the technical inputs, the Sector Plan priorities have been aligned and taken into account the priorities and inputs from nationwide Second MTP county consultation forums which captured views and priorities of Kenyans at the grass root and local level. Additionally, the Sector Plans have taken on board the key issues and priorities outlined in the Manifesto of the Jubilee Government in line with Second MTP.

The Sector Plans implementation matrices outline the broad goals and strategic objectives, the specific objective of each programme and project, the expected output and outcomes, the indicators for monitoring progress, the entity responsible for implementation, the implementation timelines, the source and mode of funding for each planned programme and activity starting financial year 2013/14 to 2017/18.

In accordance with the Constitution of Kenya, it is expected that the programmes and projects outlined in the Sector Plans will be implemented in close consultation and collaboration with county governments, keeping in mind, the distribution of functions between the national and county governments as outlined in the fourth schedule; and the capacity of county governments. Involvement of the private sector, including through Public Private Partnerships (PPPs), in implementing the sector plans will also be crucial to deliver the expected outputs and outcomes of various prioritized programmes and projects.

To ensure successful implementation of the Sector Plans, and the activities outlined in the implementation matrices, my ministry will put in place the necessary monitoring and evaluation framework and systems including the reporting formats and templates for production of quarterly progress reports by implementing entities.

In conclusion, let me take this opportunity to thank the respective Cabinet and Principal Secretaries involved in various sectors and all those involved in preparation of the Sector Plans.



Anne Waiguru, O.G.W.
Cabinet Secretary, Ministry of Devolution and Planning

FOREWORD

Kenya Vision 2030 is anchored on three pillars, namely the Economic, the Social, and the Political pillars. The Economic pillar aims to improve the prosperity of all Kenyans through an economic development programme covering all the regions of Kenya, and targets to achieve an average Gross Domestic Product (GDP) growth rate of 10% per annum over the plan period. The vision for the Financial Services Sector (FSS) is to create a vibrant and globally competitive financial sector that will create jobs and promote high levels of savings to finance Kenya's overall investment needs. The FSS therefore has an important role to play in realising the goals of Vision 2030. In this regard, the Government has set a series of targets to be achieved in five-year successive Medium Term Plans (MTPs). The Second Medium Term Plan MTP (2013 –2017) has identified programmes and project for implementation in the Financial Services Sector (FSS) as part of achieving aspirations outlined in the Vision 2030.

The National Treasury, working closely with the Ministry of Devolution & Planning and the financial sector Regulators, namely the Central Bank of Kenya (CBK), the Capital Markets Authority (CMA), the Insurance Regulatory Authority (IRA), the Retirement Benefits Authority (RBA), and the Sacco Societies Regulatory Authority (SASRA), has developed the Second MTP FSS Plan that is being implemented between 2013 and 2017. The lessons learnt from the financial crisis of 2008 – 2009 helped us to review our approach in developing the Second MTP. Hence there will be increased involvement of the regulatory authorities in implementing the plan during this period. Under the leadership of H.E. The President, Kenya's economy has continued to exhibit strong growth. This has resulted in the FSS growing year on year. A key priority for the coming years will be to review the architecture for regulating the FSS in order to keep pace with this growth and ensure financial stability is maintained.

The National Treasury would like to extend sincere thanks and gratitude to all the entities that were involved in the development of this Sector Plan, and in particular to the regulatory authorities for their contribution. The National Treasury would also like to thank the Ministry of Devolution and Planning for its overall leadership and direction and Financial Sector Deepening (FSD) Kenya for working closely with the National Treasury in drafting the Financial Services Sector Plan.

Henry K. Rotich
Cabinet Secretary, The National Treasury

PREFACE

The goal of the Financial Services Sector under Kenya Vision 2030 is to make Kenya a vibrant and globally competitive financial sector driving high levels of savings and financing Kenya's investment needs. This Plan defines our initiatives and strategies for 2013 – 2017. The Plan provides guidance and recommendations towards achieving this goal and sets out the project and programmes to be undertaken during the Second Medium Term Plan.

Kenya's economic growth during the First Medium Term Plan MTP 2008-2012 has been commendable, particularly coming during the time of global weakness and uncertainty. Financial services have gained deeper roots, providing financial access, efficiency and stability to a greater number of the population. These achievements have been because of economic stability through sound economic policies and market oriented financial reforms. We expect these achievements to continue during the Second MTP period. This will be driven by a participatory process involving financial sector players, regulators and other institutions including relevant Government Ministries, Departments and Agencies under the leadership of the National Treasury. Furthermore, it will involve Development Partners including the International Monetary Fund (IMF), the World Bank and Financial Sector Deepening (FSD) Kenya.

In order to implement the programmes outlined in this Plan all relevant government sector institutions and stakeholders are expected to incorporate the specified activities in their Strategic Plans, Annual Work Plans, Performance Targets and Service Charters to keep them measurable and time bound. The implementation of this plan will be monitored through Annual Progress Reports under the National Integrated Monitoring and Evaluation System (NIMES) to ensure successful implementation.

In conclusion, I wish to commend the technical officers in the National Treasury, Financial Sector Regulators, the Ministry of Devolution and Planning, and FSD Kenya who spent their time to put together this Sector Plan.

Dr. Kamau Thugge, EBS
Principal Secretary The National Treasury

TABLE OF CONTENTS

STATEMENT BY THE CABINET SECRETARY MINISTRY OF DEVOLUTION AND PLANNING III

FOREWORD IV

PREFACE V

1 INTRODUCTION 1

2 SITUATION ANALYSIS 2

3 CHALLENGES AND EMERGING ISSUES 9

4 PROJECTS AND PROGRAMMES FOR 2013-2017 15

4.1 Strategic Approach 15

4.2 Flagship Projects 17

4.3 Key Financial Services Programmes 17

4.4 Other Programmes 19

5 POLICY LEGAL AND INSTITUTIONAL REFORMS 22

6 IMPLEMENTATION OF THE PLAN 24

ANNEX 1. KEY INDICATORS 25

ANNEX 2: IMPLEMENTATION MATRIX 29

1 INTRODUCTION

In 2008, the Government of Kenya established a new framework for national development through the Kenya Vision 2030, which aims to create "a globally competitive and prosperous country with a high quality of life by 2030". Based on three pillars - economic, social and political – Vision 2030 provides the long-term perspective required to achieve this national transformation. An ambitious target is set for the economic pillar- achieving a compound average annual growth in gross domestic product (GDP) of 10%. The Financial Services Sector is one of six priority sectors under the economic pillar.

The Financial Services Sector (FSS) is critical to achieving the 10% annual economic growth target of the Economic Pillar. Achieving this high level growth target and funding the key Vision 2030 projects requires that the financial services industry drives a significant increase in investment in Kenya, mobilising both domestic and international resources. The vision for the sector is to "*Create a vibrant and globally competitive financial sector that will promote high level of savings to finance Kenya's overall investment needs".*

In order to achieve this vision, three fundamental dimensions will be addressed: access, efficiency, and stability. These dimensions are mutually reinforcing and each needs to be addressed to ensure sustainable development. As the recent history of the international financial system has clearly demonstrated, neglecting one of these can rapidly undermine progress in the system as a whole.

A series of five year Medium Term Plans (MTPs) provides the basis for translating the high-level strategy set out in Vision 2030 into specific initiatives. The First MTP) covered the period 2008-2012. This document sets out the financial services sector programmes and projects for implementation during the Second MTP 2013-2017 period.

The intention of this plan is to establish a clear strategy for development of the financial services sector over the period. The financial services sector consists of a number of sub-sectors: banking, microfinance, capital markets, insurance, retirement benefits/pensions, development finance institutions, and savings & credit co-operatives. The FSS Plan is not intended to replace individual detailed, sub-sector plans. Rather it provides a strategic framework to guide these plans and establish the necessary coordination to ensure that the overall goals for the sector are realised. A series of key sector-wide, transformational projects and programmes are identified, which will provide the basis for far-reaching change over the next five years.

2 SITUATION ANALYSIS

Developments in the Financial Services Sector over the last five years have been broadly positive. Significant gains have been made with the average growth (7.8%) in the sector exceeding that of GDP (4.4%) across the whole economy. Over the period, net assets in the system increased at a compound annual growth rate (CAGR) of 15% p.a. from KSh. 1.1 trillion to KSh. 2.2 trillion. As a result, the sector's share of GDP increased from 4.8% in 2007 to 6.4% in 2011. These are encouraging results given the significant headwinds to growth affecting Kenya over the period. There were major shocks from the post-election violence of 2007, adverse weather impacting the key agricultural sector, the global financial crisis and subsequent worldwide economic slowdown.

Judging progress against the high-level aims of Vision 2030, it is clear however that results have fallen short of ambition: Kenya's gross national savings (as % of GDP) actually decreased over the period of the plan from 15.4% in 2007/08 to 10.4% in 2011/12, far below the First MTP target of 24.4%. Although the savings rate as an indicator needs to be judged with some caution, this is a somewhat disappointing result. A number of factors impinged on the savings rate:

(i) Inflation rose gradually and consistently over the 5 year period, starting from an annual average of 4.3% in 2007 to 9.6% in 2012, with outliers of 16.2% in 2008 and 14% in 2011. This led to the erosion of the value of savings and also an incentive to shift from cash savings in financial institutions to other forms of savings. During this period, incomes in the form of salaries remained fairly stable.

(ii) Tight monetary policy: - responding to the high inflation rates, CBK tightened monetary policy, sharply increasing the key Central Bank rate. The resultant increased cost of borrowing absorbed savings were utilised to service higher interest payments on loans. Overall spreads widened as savings rates failed to match the rise in lending rates.

(iii) Continued rapid growth in the real estate market created an especially attractive alternative to saving in financial forms. Savings have increasingly been channelled towards home ownership and other real estate investments.

(iv) An increase in expenditures on consumer goods over the First MTP period, especially by the middle class, has also led to a decrease in savings. This change in preferences towards improved lifestyles is reflected in an increase in motor vehicles and purchase of household goods.

Total investments as a percentage of GDP slowed to 19.8% in 2011/2012 compared to 20.2% in 2010/2011. While public investment in infrastructure was maintained at the expected level, private investment has not reached the levels envisaged in the MTP 2008-2012. This follows slower implementation of structural reforms and privatization programmes, inadequate framework for PPP arrangements, and weak investor confidence emanating from a period of high inflation and weakening of the shilling.

The following sections discuss the current situation, and the progress made during the First MTP, in relation to the key dimensions of access, efficiency and stability.

a. Access

Expansion of the financial system to achieve increased savings mobilisation to finance the country's investment requirements means developing a more inclusive system, which intermediates across the whole economy and society. Ten years ago Kenya's financial system addressed a relatively narrow

market, reaching only higher-income households and larger businesses with a limited range of financial products and services. This significantly constrained the potential impact of the sector on economic growth. Access encompasses not only the headline number of business and households holding formal financial accounts with various providers (‘quantitative access’) but also the quality of what is offered (‘qualitative access’). The latter can be understood in terms of its relevance to solving the financial management needs across a wide and diverse range of households and businesses.

Modest improvements were achieved in improving access over the period of the First MTP. According to the FinAccess survey of 2009, overall, financial inclusion increased from 58.7% in 2006 to 77.3% in 2009. Formal financial inclusion also increased from 18.5% to 22.6%. More recent (though not strictly comparable) data suggests that this rate of improvement in the headline *quantitative* measure of access has continued.

(i) Banking: As at 31st December 2012, the banking sector comprised 44 banking institutions (43 commercial banks and 1 mortgage finance company), 4 representative offices of foreign banks, 8 deposit-taking microfinance institutions (DTMs), 118 forex bureaus and 2 credit reference bureaus (CRBs). The banking sector is regulated and supervised by the Central Bank of Kenya (CBK) under the provisions of the Banking Act. The industry association is the Kenya Bankers Association (KBA). Deposit-taking Microfinance Institutions (DTMs) are also licensed and supervised by the CBK under the provisions of the Microfinance Act. In addition, there are also many credit-only MFIs. The larger MFIs and a growing number of smaller MFIs are members of the industry Association of Microfinance Institutions (AMFI). As at December 2012, CBK licensed banks and DTMs had total net assets of KSh.2,246 billion. There were 16.8 million deposit accounts translating into 640 formal deposit accounts per 1,000 adults. The key trends in this sub-sector include:

- *Downscaling by retail banks*: Major retail banks have recognised the potential of the mass market. Introducing services targeted to the needs of lower income markets led to the number of deposit accounts in commercial banks increasing from 4.7 million in 2007 to 15.1 million in 2012 – a CAGR of 26%. The number of bank branches increased more moderately from 740 to 1,197 over the same period. This expansion in access was driven by institutions with large national retail networks.
- *Expansion of agent banking*: New information and communications technologies (ICT), which drove the development of mobile payments, have also opened up the potential for the banking industry to leverage non-financial retail channels. The introduction of regulation to permit the use of agents by banks produced a significant response from industry. Between 2010 and August 2012, a total of 13,126 agents were licensed. This represents a further major step forward in solving the ‘last mile’ problem of delivering services to retail consumers. This is especially important for lower-income communities where it is difficult to provide access viably using conventional branches or automated teller machines (ATMs).
- *Growth of deposit-taking microfinance institutions (DTMs)*: Eight (8) institutions have so far been licensed as deposit-taking microfinance institutions by the CBK. Although still very small in relation to the banking sector – total deposits are less than 1% of those in the commercial banks – the DTMs are showing significant growth in accounts. In the three years since the first DTM licence was granted in 2009, the number of deposit accounts has already reached 1.6m.
- *The National Payment System (NPS):* plays a critical role in the efficient functioning of the economy. Core elements in the architecture of the NPS are the Kenya Electronic Payments and Settlement System (KEPSS), which is owned and operated by the CBK, and the Nairobi Automatic Clearing House (ACH), which is owned and operated by the Kenya Bankers Association (KBA). A range of retail EFTPOS/ATM switching networks and mobile payment and remittance systems have been licensed by the CBK.

The introduction of mobile phone based banking produced a seismic shift in access to formal financial services and has been the single biggest contributor to the increase in access seen over the last five years. Pioneered by the mobile phone operator Safaricom's M-Pesa service, the total number of customers of the six licensed mobile payment providers has grown from 1.3 million in December 2007 to 19.38 million as at August 2012. Correspondingly, the total number of agents has increased from 1,582 to 64,439. Although the core elements of the NPS remain within the banking system, the development of mobile based payments has produced a *de facto* expansion, involving new players from outside the banking system.

(ii) Saccos: With the creation of Sacco Societies Regulatory Authority (SASRA) in 2008, 215 deposit-taking Saccos began the journey to prudential regulation. By August 2012 a total of 122 Saccos had been licensed by SASRA. The operationalization of the Authority has seen the assets of the licensed Saccos improve from KSh.122 billion in 2010 to KSh.192 billion in 2012. Similarly deposits increased from KSh.87 billion to KSh.144 billion in the same period. Membership of the licensed Saccos has increased from 1.0 million to 1.9 million. The 215 deposit-taking Saccos have 531 branches distributed across the country with 148 Saccos linked through the Co-operative Bank's Sacco Link network (which is itself connected to the Visa system).

(iii) Capital Markets: A total of 94 institutions are licensed to operate by the Capital Markets Authority (CMA). These include the Nairobi Securities Exchange (NSE), a central depository, 12 investment banks, and 10 stockbrokers. The industry association is the Kenya Association of Stock Brokers and Investment Banks (KASIB). There were 5 new initial public offerings (IPOs) and 10 rights issues in the MTP1 period. Individual investors are showing increased interest in the equity market. As at June 2012, approximately 890,000 local and East African individuals held 28% of the shares, while 39,000 local and East African corporates held 41%. The balance (31%) was held by 3,900 foreign corporates and individuals. However, overall the equity/GDP ratio fell substantially over the period from 63.6% in Dec 2007 to 33.4 % in June 2012.

(iv) Insurance: As at 31 December 2012 the industry had 47 insurance companies and 2 re-insurance companies. Other regulated entities include insurance brokers, medical insurance providers, and insurance agents. The industry is regulated and supervised by the Insurance Regulatory Authority (IRA). The industry association is the Association of Kenya Insurers (AKI). The insurance industry's assets grew from KSh.154 million in 2008 to KSh.233 million in 2011, a CAGR of 14.8%. This is a slow rate given the relatively low base. Insurance penetration (total premiums to GDP) improved from 2.5% to 3.1% during First MTP. New initiatives were launched in the areas of micro-insurance and index based weather insurance.

(v) Retirement Benefits: In 2011 there were 1,262 registered retirement benefits schemes (occupational and individual), 16 fund managers, 12 custodians, and 26 registered external administrators. The industry is regulated and supervised by the Retirement Benefits Authority (RBA). The total assets of the industry in 2011 amounted to KSh.432 billion. The single largest scheme is the National Social Security Fund accounting for 23% of total assets. Currently, there are around 1.7 million active members in the various retirement benefit schemes, of whom 1.3 million are members of NSSF while the remaining approximately 400,000 are members of occupational or individual retirement benefit schemes. The membership in individual retirement benefits schemes has grown rapidly recently, rising from 25,829 members in June 2010 to 75,402 members in June 2012. Much of this growth can be attributed to the development of the *Jua Kali* Retirement Benefit Scheme popularly known as "Mbao Pension Plan", which was launched in 2011. In August 2012, the fund had 36,163 members.

b. Efficiency

The impact of the financial system on financial intermediation across the economy depends heavily on its efficiency. High costs of intermediation necessarily exert a frictional drag on the economy as a whole. This again links directly to the sector's core function of effective resource allocation and achievement of the Economic Pillar of Vision 2030. There are strong links here to both the access and stability pillars. Increased efficiency will directly support improved access by reducing transaction costs.

Competition is an important factor in enhancing efficiency. The incentives for players in the financial services sector to invest in improvements in efficiency through adoption of more productive technologies and innovation are shaped by competition. Furthermore, it will also determine the extent to which these efficiency gains translate into pricing benefits for consumers of financial services. A competitive market should lead to efficiency gains being passed on to consumers, impacting on access and the overall vision for sector growth. A number of interventions, including payments system, capital markets structure and credit referencing, have contributed to efficiency gains during the First MTP.

(i) Banking

- *Credit referencing*: Credit information sharing provides a way to significantly reduce information costs and therefore improve credit market efficiency. The sharing of negative information not only allows lenders to avoid those with a possible propensity for default but also strengthens the incentives for borrowers to honour loan contracts. Introduction of the necessary regulatory changes in 2010 mandated the sharing of negative information among commercial banks. Two credit reference bureaus were licensed and by the second quarter of 2012, the number of requests to the bureaus for reports from banks had exceeded 230,000.
- *Interest rate spread*:[1] The spread in Kenya has averaged 10.42% over the period from 2000 to 2010. During this 10 year period it was highest in 2000 at 14.24% and lowest in the year 2005 at 7.8%. Although in line with rates seen among Kenya's immediate neighbours, the spread is higher than the rates seen in the emerging economies against which Kenya benchmarks itself in the context of Vision 2030.
- *Payments*: Significant improvements in efficiency have been achieved in payments at both the retail and wholesale levels. A value cap was introduced requiring all large value payments (KSh.1 million and higher) to be cleared and settled through the Kenya Electronic Payments and Settlement System (KEPSS) – a multi-currency real time gross settlement system (RTGS). Owned and operated by the CBK, the number of transactions handled by KEPSS has increased from 180,312 in 2007 to 1,241,533 in 2011. This has resulted in a decrease in the value of transactions handled by cheque from 20% to about 10%. The efficiency of cheques as a payments instrument was nevertheless improved through cheque truncation, involving the electronic capture and transmission of cheque images allowing a reduction in the time to clear cheques across the whole country from T+3 to T+2. Simultaneously, there has been a significant shift to the use of other electronic forms of retail payment. As already noted, mobile phone based payments have dramatically changed the landscape of retail domestic transfers, displacing other less efficient forms – notably physical cash transfers. Although less dramatic, debit card based payments are starting to make strong inroads into the retail payments space.

(ii) Saccos: The introduction of regulation has necessitated considerable improvement in the efficiency of many DTSs. The licensing process includes an assessment of the suitability and adequacy of ICT infrastructure to support prompt and accurate reporting. This has encouraged Saccos to improve

1 *Interest rate spread is the average rate of interest charged by banks on loans to customers, minus the average rate of interest that banks pay on savings deposits.*

ICT systems, not only helping to improve corporate governance by increasing the disclosure and provision of information but also producing improvements in operational efficiency and enhancing technology based service provision to Sacco members.

(iii) Capital Markets: infrastructure for automated bond-trading platform has been introduced linking the Nairobi Securities Exchange (NSE) and CBK, which undertakes settlement of Government bonds. Trading in Government bonds has since tripled. Capital markets, have embraced ICT in order to encourage venture capital investment in the small and medium enterprise (SME) segment.

(iv) Insurance: The penetration of (total premiums to Gross Domestic Product (GDP) expressed as a percentage) improved from 2.5% to 3.1% while insurance density (the ratio of total premiums to total population) improved from US$17 to US$25. This positive trajectory was further underpinned by improving regional conditions and robustness of regional trade partners within the EAC market, improved consumer education, claims settlements and efficiency in collection of premiums and adoption of management information system. The Insurance Regulatory Authority (IRA) has continued to emphasise innovation and technology in the insurance industry as a driver of increasing the penetration of insurance services and improving efficiency in operations. Legislation has been amended to allow for online submission of returns to improve efficiency in the industry. Furthermore the IRA has facilitated the payment of licensing fees by agents via the use of mobile money transfer mechanisms.

c. Stability

The stability and integrity of the sector is founded on the prudential supervision of the key financial institutions, which collectively provide the core of the system. Attention has necessarily been focussed on the deposit-taking institutions, which account for the largest proportion of the assets in the system. However, insurers, pension and other investment funds are anticipated to become increasingly significant as the economy as the system develops and diversifies. Oversight of these sub-sectors has been strengthened.

There is growing recognition worldwide of the significance of market conduct as a key factor in supporting the long-term function and stability of financial markets. Threats from organised crime and terrorism present particular challenges to the financial system where it is used as a conduit for funds derived from illegal activities. The Proceeds of Crime and Anti-Money Laundering Act was enacted in 2009 and the new Anti-Money Laundering Board appointed in June 2011. CBK is providing an initial institutional home for the key Financial Reporting Centre (FRC) with staff seconded from the Ministry of Finance and CBK on an interim basis. While initially domiciled within CBK it provides for cross-sector oversight. The FRC is now in the process of finalising the regulations to make the Proceeds of Crime and Anti-Money Laundering Act fully operational. The Prevention of Terrorism Act came into law in October 2012. Money laundering damages the financial sector institutions that are critical to economic growth; reduces productivity in the economy's real sector by diverting resources and encouraging crime and corruption, which slow economic growth; and distorts the economy's external sector—international trade and capital flows to the detriment of long-term economic development.

The stability of the financial services sector, along with the wider economy, is critically dependent on sound macro-economic management. Over the period of First MTP, the Government has pursued a policy of prudent macro-economic management and has managed to maintain stability despite significant exogenous challenges. A period of relatively high inflation and exchange rate instability necessitated a sharp increase in interest rates for a time. The policy was successful and the Central Bank Rate (CBR) is now being carefully managed downwards. Continued macro-stability will remain a vital background condition to achievement of further progress over the Second MTP period.

(i) Banking: The CBK uses the Bank for International Settlements (BIS) Basel Committee of Banking Supervision and International Monetary Fund (IMF) defined Financial Soundness Indicators to monitor and evaluate the performance of financial institutions. In 2011, all institutions met the minimum capital adequacy, core capital to deposit and liquidity ratios. Institutions also observed the maximum foreign exposure limit of 10%. Overall, the regulatory capital to risk-weighted assets ratio has remained around 20%. The ratio of gross NPLs to outstanding loans has been steadily decreasing through much of the period of MTP1 and stood at 4.4% as at the end of 2011.The CBK is working to ensure that banks are fully compliant with the Basel I Accord and has begun the process of implementing the provisions of Basel II and III. The policy to increase core capital requirements for institutions licensed under the Banking Act was implemented, progressively raising the minimum capital from KSh.250million to KSh.1billion. As at December 2012, all the 44 banks and mortgage finance company had met the KSh.1billion minimum core capital requirement.

(ii) Saccos: Evidence from the FinAccess surveys showed that the use of Saccos had declined from 2006 to 2009 in the face of strong competition from the downscaling commercial banks. There have been growing concerns over the financial soundness of a number of Saccos, confirmed by analytical work commissioned by the Ministry of Co-operatives Development and Marketing. A new regulatory framework was introduced in the course of the First MTP period, establishing the Sacco Societies Regulatory Agency (SASRA) to undertake prudential supervision of all Saccos taking withdrawable deposits from members. The new Act and Regulations include clear standards regarding, among others, capital, liquidity, the extent of external borrowing, asset categorization and provisioning, maximum loan size, and insider lending. Saccos regulated by SASRA are now subject to strict reporting requirements.

By the end of the second quarter of 2012, 122 out of the 215 deposit-taking Saccos had been licensed by SASRA. Of the remainder, 19 had letters of intent while the remaining 74 were unable to satisfy the minimum capital requirement of KSh.10 million established under the regulations. As at 30th September 2012, the gross non-performing loans to gross loans ratio was 5.9% (down from 9.7% on 31st December 2011). Although the sub-sector consists of a large number of individual societies (estimated to number more than 3,000 active Saccos), those with front office savings activities (FOSAs) and accepting withdrawable deposits are estimated to account for KSh.196 billion or nearly 80% of the assets in the system. The assets of the licensed Saccos improved by 57% in the period from 2010 to 2012. Similarly deposits in the licensed Saccos increased by 65% to reach KSh.144 billion in the same period and membership by 90% from 1.0 million to 1.9 million.

(iii) Capital Markets: Financial soundness indicators have been developed for market intermediaries for 2010 and 2011. The capital adequacy ratio (core capital to total assets) improved from 61% to 67% and the profitability ratio (return on assets) improved from 21.3% to 24.6%. However, the sector has significant concentration risk with ten (10) out of the 58 listed companies accounting for 72% of market capitalization in 2011. Guidelines for management supervision and internal controls have been prepared. These are intended to mitigate: credit risk to ensure the firm establishes and maintains an effective credit rating system to evaluate client and counterparty creditworthiness; operational risk and market risk to ensure that the management specifies authorised products and instruments the firm may deal in and enforces effective procedures to ensure compliance.

(iv) Insurance: The insurance sector assets have grown from KSh.154 billion in 2008 to KSh.233 billion in 2011. The Insurance Anti-Fraud Unit was set up in 2011 with an aim of reducing malpractice and fraud in the industry. It is believed that with these new measures in place there will be an increase in confidence in the insurance industry, supporting future growth.. Meanwhile the total investments of the industry at the end of the year 2011 amounted to KShs166.3 billion compared with KShs 168.5 billion in 2010 a decrease of 1%.

(v) **Retirement Benefits:** The RBA has implemented risk-based supervision for all schemes under which they are ranked on a score of 0 to 4 with a higher score indicating a higher risk. In 2011, all the schemes had been scored and the overall score was assessed as 1.15 indicating a low risk of failure. The industry is well within the statutory limits for investment with 57% of investments in relatively safe assets such as government securities, guaranteed funds, or fixed deposits. The remaining 43% is held in assets with a higher risk profile such as real estate and quoted or unquoted equities.

3 CHALLENGES AND EMERGING ISSUES

Despite the significant progress made during the First MTP, much remains to be done in order to achieve the vision for the sector (set out in Vision 2030): "a vibrant and globally competitive financial sector that will promote high level of savings to finance Kenya's overall investment needs". Based on the current growth rate of 5%, the overall expectations for financial services sector growth will be moderated. Development of the sector will lead to growth across the real economy. Realistically, achievement of the Vision 2030 GDP growth target of 10% pa depends on successful reforms and development in the other sectors within the Economic Pillar. The Comprehensive Financial Sector Reform and Development (CFSRD) Strategy thus establishes a more realistic target for the savings rate in the range of 12%-15% over the Second MTP period. Nairobi International Financial Centre (NIFC) will increase access to international finance, lower interest rates and spreads, enhance efficiency of financial intermediation and strengthen financial and capital markets infrastructures.

a. Access

Given the relatively low turnovers and income of many businesses and households currently excluded from the system, the impact of increased access on overall savings may initially be modest. However, the prospective contribution of financial inclusion to economic empowerment points to much greater benefits in the longer term. The increasingly rapid transformation of Kenya's economy will place growing demands on the sector to support new needs. Urbanisation and the shift away from informal, agriculturally dependent, rural livelihoods will, for example, increase the demand for *formally* provided long-term retirement savings and long-term credit for investment in housing. Specific challenges, which the GoK will address over the Second MTP period, include:

A significant number of Kenyans remain entirely excluded from access to any form of financial service provision formal or informal. FinAccess 2009 data available indicates that nearly 33% of the adult population fall in this category. Furthermore, analysis shows that exclusion disproportionately affects the uneducated and poor. About 56% of those with no education are excluded contrasting with only 8% of people with tertiary education. Similarly 53% of those in the poorest quintile are excluded against only 18% of those in the wealthiest quintile. There is a significant gender dimension. Overall, levels of exclusion are lower among women as a consequence of their greater usage of informal services compared with men. Women are, however, significantly less likely to use formal financial services.

Research shows that, despite the recent improvements in the number of people reached by the financial services sector, levels of usage (qualitative inclusion) remain generally low. Relatively few households make use of formal financial services to manage day-to-day cash-flows and most businesses are still heavily cash dependent. Even fewer are using formal financial services to manage more complex needs. Notable gaps are in the management of business or household risks through insurance and the long-term savings and investment for retirement. This can be attributed to a number of factors: relevance of services, affordability and financial literacy. Developing more relevant services requires innovation and a more client-centric approach from providers. Consumers often end up using a service in a completely different way from the function for which it was initially conceived. Affordability is also a major problem in the context of our low average income levels and ultimately depends on the second strategic pillar (discussed further below). To address the financial literacy challenge, during the First MTP, the government had launched the Financial Education and Protection Partnership (FEPP) involving public and private sector stakeholders. Over the Second MTP, the government will develop a more comprehensive, long-term programme to build financial capability.

(i) Banking: Kenya has made impressive strides over the past 5 years in financial inclusion. The proportion of the population with an account at a formal financial institution is higher in Kenya than any other country in sub-Saharan Africa with the exception of South Africa and Mauritius (both middle income countries). The Kenyan banking system has expanded greatly in terms of the number of branches in recent years. Between 2006 and 2009, the total number of bank branches in Kenya increased from almost 600 to almost 1,000 (a 68 percent increase). This expansion involved all ownership categories of banks, namely domestic private banks, foreign banks and government banks. However, the domestic private banks, notably Equity Bank, have played a leading role here. Drivers of financial inclusion in Kenya centre on supportive regulation, innovative business models and technological advances. There are strong prospects for continued progress in reducing exclusion through further innovations here.

(ii) Saccos: The Sacco sub-sector continues to play a significant role in providing access to financial services for both individuals and smaller-scale enterprises. A planned review of the policy and regulatory framework governing the Sacco societies will align the development and regulation of Sacco societies to the Constitution of Kenya 2010, facilitate the rationalisation of the sub-sector and unlock the potential of Saccos to increase financial access in an effective and cost efficient manner. In particular the growth and development of agriculture based Saccos into community SACCOs provides a platform for the much need access to savings and credit in rural Kenya. Thus SASRA while continuing with the programmes identified for the Sacco subsector in the First MTP will initiate new programmes to specifically support the effective development of rural Saccos.

(iii) Capital Markets: Quantitative data on the levels of access and utilisation of finance by business is limited and a new initiative is underway under the CBK-led FinAccess programme to map access. In the meantime qualitative research continues to point to challenges among small and medium enterprise (SMEs) segments in obtaining access to a full range of appropriate financial services. Constraints appear around the relevance of services to the needs of businesses and the pricing of those services. There is a significant appetite among SMEs for raising capital on the securities market which is yet to be addressed. During the Second MTP period the SME market at the NSE will be listed. Work to develop a futures exchange in Nairobi has started with the aim of moving to implementation during the period of Second MTP.

(iv) Insurance: The level of insurance penetration is still low. The IRA has set a target to increase insurance penetration from 3.1% in 2012 to 3.5% by 2017. This will be achieved by promoting a significantly increase in the uptake of insurance in markets which have yet to be tapped by the industry. This will require a considerable degree of innovation by the industry, developing new solutions which have real relevance for the needs of target markets. The IRA will encourage innovative channels of distribution and will support a cross industry programme of consumer information and financial education. A key factor will be improving consumer confidence in the value and reliability of insurance.

(v) Retirement Benefits: Pension coverage has remained low at 15% of the labour force. Members of the public need to be sensitized on the need to save for retirement. A major contributor to the limited coverage of formal pensions is the low take-up in the informal sector where a majority of the Kenyan workforce is found. The sector is also hampered by the lack of a harmonized pension policy and low income replacement rates – below the International Labour Organisation (ILO) recommended 40%. The Government will develop a comprehensive pension policy during the Second MTP period. This policy will need to encourage industry players to develop flexible and innovative products which are better tailored to the needs of the informal sector.

b. Efficiency

Innovation and adoption of new technology has been a key driver of improved efficiency. In some cases this has provided dramatic improvements – perhaps most obviously illustrated through the development of mobile phone based financial services. The ability to reap the gains from new technology depends on developing an appropriate regulatory structure. This must encourage effective competition while rewarding innovation and guard against the potential new risks created but avoid heavy compliance costs.

(i) Banking: Interest rate spreads across the banking industry have remained virtually unchanged over the period of First MTP. Expectations had been high that a combination of increased competition, reduced charges from bad debt provisions and the efficiency gains from investments in technology would have produced a contraction in spreads. In part, increased access is likely to have played a role in increasing average spreads. The fixed element of transaction costs necessarily becomes relatively more significant with smaller transaction sizes associated with microenterprises and lower income retail markets. Nevertheless, there are strong indications that the profitability of the banking sector is relatively high suggesting constraints to effective competition. Furthermore, costs in the regulatory environment – notably relating to collateralisation of credit – impose inefficiencies on the system. During the Second MTP, the Government will launch a series of initiatives to address lack of effective competition and collaterization of credit.

- A strong start has been made on the development of *credit information sharing* with the requirement for negative information sharing among banks. The next challenge is to enhance the system through positive information sharing permitting borrowers to readily demonstrate their credit status to potential lenders based on their track record. Work is now well underway to expand the system to positive information sharing and the eventual inclusion of other major credit providers in the system. The Banking Act and the Microfinance Act were amended in April 2012 to allow DTMs to participate in the mechanisms. The 2012/13 Finance Bill will introduce changes to allow sharing of information across sectors, including with Sacco societies. Over the Second MTP period, the Government will continue its efforts to expand the credit information sharing system.

- The last decade has seen a major shift in retail channels for financial services especially with respect to *interoperability*. Bank branches are being replaced by ATMs, debit and credit cards, internet banking, mobile phone banking and more recently agent banking. This has reduced the operational costs, increased convenience and enhanced quality of services. Much of the channel infrastructure has been built through the initiative of individual banking institutions. The result is that there is little sharing of infrastructure. When a new channel is first introduced, the lack of sharing rarely appears to present a problem. Indeed, the exclusivity provides an incentive for innovating institutions to invest in differentiating themselves from competitors in the market. However, where financial institutions continue to operate independently, the level of investment across the industry will necessarily be higher than if infrastructure were shared. Inevitably, this reduced efficiency exerts an upward pressure on prices to consumers. Payment systems, as with telephone networks, are characterised by network economies. The more people using the system the more useful it is to them and the larger the market. There are therefore significant gains to be made by encouraging the growth of a larger user base. In a competitive market, it is usually difficult for a single player to build a sufficiently large network to achieve an efficient solution. The viability of a cheque based system of payments, for example, has long depended on the effective interoperability created through the banks' clearing house. However, a similar level of interoperability has yet to apply to either the debit card or mobile payment systems in Kenya. Under the Second MTP, initiatives will be taken to significantly enhance interoperability.

(ii) Saccos: Continued successful implementation of the new regulatory framework remains the cornerstone of the Government's policy to reform the Sacco sub-sector, directly incentivising Saccos to invest in improving the rigour and efficiency of operations. Recent results from some of the leading societies demonstrate the potential to significantly enhance operational efficiency. In order for the sub-sector to effectively complement and compete with the commercial banking sector, consolidation in some form is likely to be essential. This is most pertinent for the large number of smaller societies whose limited scale of operations poses challenges from an efficiency perspective. The planned sub-sector review will examine possible options to mitigate this challenges.

(iii) Capital Markets: Market infrastructure and institutional arrangement present major impediments to market growth. Technology is ever changing posing significant opportunities and challenges to the capital markets. Modernisation of the capital markets infrastructure is a key priority to mitigate systemic risk and move at par with the best international standards. As at 2012, CMA had adhered to 28 out of the 34 IOSCO principles. Trading and settlement of bonds between the NSE and the Central Depository System (CDS) at the CBK has been fully automated. Efforts are underway to integrate the CDS into the Central Depository and Settlement Corporation (CDSC) platform to enhance service delivery.

(iv) Insurance: The insurance sector is characterised by a relatively large number of institutions given the current small size of the market. This again gives rise to concerns over efficiency. Policies to address this structural issue will be reviewed during the course of the Second MTP. The unfavourable tax regime and multiplicity of taxes including premium levies, capital gains tax and stamp duty among others has also affected negatively the growth of the life insurance business. Finally the industry has shown relatively low adoption and utilisation of information technology.

(v) Retirement Benefits: Local markets do not provide adequate vehicles to enable schemes to adequately diversify their investments and match assets to liabilities. The retirement market faces a shallow and illiquid private sector corporate bond market and the absence of inflation linked securities (important for pension schemes) together with poor investment returns and high administrative costs in most schemes. Addressing these challenges effectively will be essential to strengthening the pensions industry in Kenya.

c. Stability

As the financial system expands a key challenge is ensuring that measures do not excessively blunt competition as regulation necessarily increases entry barriers to financial markets. Meanwhile, innovation in the financial system will introduce potential new areas of risk. Therefore supervision approaches will be forward-looking and proportionate – ensuring that the new approaches needed to deliver the vision are not stifled, whilst simultaneously not exposing the system to risks which could swiftly undo the gains made. Sustaining stability and resultant market confidence is a prerequisite for increasing the level of savings intermediated through the financial services sector.

There is increasing competition across the traditional boundaries of market segments in the financial sector. Notably banks, DTMs and Saccos taking withdrawable deposits are addressing similar customer segments. Financial service groups are combining banks, insurance and investment companies. The regulatory authorities have already responded to the challenges created by establishing the Joint Regulators Forum seeking to co-ordinate across the five financial sector regulators (CBK, CMA, IRA, RBA and SASRA). Given the convergence in markets, the GoK will assess the efficiency and effectiveness of maintaining five separate agencies. Improved efficiency in supervision will help reduce the costs imposed on industry and increased effectiveness reduces the potential threats to stability. During the Second MTP, period the Government will develop and implement a strategy for consolidation of the banking, insurance and Sacco sub-sectors. The strategy will consider the potential impact of consolidation on

efficiency objectives, directly and through increased competition. Although it is important to avoid the danger of creating barriers to entry, equally the presence of an excessive number of licensed institutions can have counter-productive effects.

Whilst existing legislation and regulation provides consumers with some protection, in practice it can often prove inadequate. The Competition Act, 2010 and the Consumer Protection Act, 2012 do not adequately address consumer protection issues in the financial services sector. During the Second MTP period, the GoK will develop a more systematic framework, which is comprehensive, effective and proportionate to the problems encountered in the sector. Earlier initiatives to improve the ability for consumers to compare prices among competing institutions have had only modest impact. Many consumers still find it difficult to readily compare the pricing of various providers and in some cases cannot determine the affordability of products – notably credit (with potentially negative implications for managing debt capacity). The Government will work with the regulators and financial services providers to develop a comprehensive consumer protection and financial education framework that will enhance transparency.

The Proceeds of Crime and Anti-Money Laundering Act, 2009 creates a comprehensive legislative framework to combat the laundering of money derived from criminal activity. It establishes several bodies, the Financial Reporting Centre, whose principal role is to assist in the identification of the proceeds of crime and the combating of money laundering, the Anti-Money Laundering Advisory Board which advises the Director of the Centre; and the Assets Recovery Agency whose role includes the conduct of recovery proceedings of property which is or forms part of the proceeds of crime. These bodies have now been established and building their implementation and enforcement capacity will be a priority under Second MTP.

In addition to these broad cross-sectoral challenges, a number of specific sub-sector issues need to be addressed

- **Banking:** The emerging electronic payments system provides significant opportunity for improving access and efficiency. The Government will undertake initiatives to use electronic payments for transfers between the Government and businesses and individuals. The passage of the National Payments System Act provides the legislative basis for oversight of the newly emerging electronic payment systems. With the growth of some of these new systems to the point where failure would present a systemic threat, it is now urgent that more formalised oversight is introduced. Regulations for e-money issuers and payments service providers have already been drafted. These will be finalised and structured oversight introduced. Furthermore, there are currently a number of e-payment initiatives being undertaken by various entities. The Government will prepare an overarching e-payments policy that will allow for improved coordination of the initiatives.
- **Saccos:** In principle there is a clear distinction between Saccos seeking to mobilise deposits – which must obtain licences from SASRA and are subject to prudential oversight – and those which do not and only require registration by the Registrar of Cooperatives. Practically blurring can occur in the market, creating a potential problem of regulatory arbitrage. The planned review of the policy and regulatory framework will address this issue and consider the case for and options for non-prudential regulation of non-deposit taking Saccos. In addition the existing legislation provides for the establishment of a deposit guarantee fund which has yet to be established. Steps will be taken to move forward with the development of this fund. Finally a liquidity management mechanism is required for the Sacco sub-sector and this will be established during the Second MTP.
- **Capital Markets:** Implementation of risk based supervision (RBS) has been ongoing and so far the following activities have been implemented: All staff members in market operations as well as from other directorates have been trained on RBS, a comprehensive risk profiling framework

has been developed and risk based capital adequacy requirements have been submitted by the CMA to the Ministry of Finance for approval. During the period of the Second MTP, the transition to RBS will be completed.

- **Insurance:** In order to ensure sustainable growth and stability of the industry, the IRA has also initiated the process of transitioning from compliance based supervision to RBS. RBS is a dynamic process where the emphasis is more on understanding and anticipating the possible risks a supervised entity will be facing when executing its business plan. One of the advantages of the RBS is that it allows comparisons of the risk profiles of individual insurers in the industry and demonstrates how the risk profiles of individual insurers evolve over time. Again during the period of Second MTP, the transition to RBS for the insurance industry will be completed.
- **Retirement Benefits**: The National Social Security Fund (NSSF) is the largest scheme in Kenya but has, until recently, operated outside the core pension's regulatory framework. A process to bring NSSF into compliance with RBA regulations is now underway. This will be completed during the period of Second MTP. Significant challenges are faced. Reforms are needed to enhance corporate governance and instil confidence in the public. Given the low contribution rates, the income replacement rate has been low, way below the ILO recommended replacement rate of 40%. There is therefore need to reform the NSSF to improve both the adequacy of benefits and coverage.

4 PROJECTS AND PROGRAMMES FOR 2013-2017

The strategy followed under the First MTP has produced strong results in a number of directions. Reform efforts have produced a decisive shift towards a more robust financial system meeting a broader range of needs across the economy. However, there has been less progress towards increased intermediation targeted under Vision 2030. In part, it is evident that moving decisively towards the former goal will depend heavily on the performance of the wider economy and key productive sectors. The financial services sector is nevertheless well positioned to make further strong progress, enhancing the development of the real economy.

Strategic Approach

Strategically, the overall thrust will remain unchanged from that of the First MTP. However, to achieve far-reaching change will require a strong focus on a number of key programmes. As the financial services sector has developed and there is increasing convergence in markets with providers competing across traditional boundaries, it will be increasingly necessary to take a sector-wide approach. Much policy activity under First MTP had been led by the sub-sector regulators. As the domain specialists within the wider Government structure, it is appropriate that much of the detailed technical policy work within sub-sectors will continue to be led by these regulators. The role of the medium term plan is to set the overarching policy vision across the sector, orchestrating the efforts of the various government and non-government stakeholders.

Key elements of the approach under the Second MTP are:

- Provision of financial services will continue to be led by the private sector, reflecting the wider market based approach, which underpins Vision 2030. To this end, the Government will continue to decrease its involvement in providing services directly to the market.

- The Government will enhance its role of providing the enabling environment through developing an appropriate legal and regulatory framework and ensuring effective supervision. As these responsibilities are entirely at the national level, there is likely to be a limited direct role for county governments.

- Reflecting convergence across financial markets, the focus under the Second MTP will be on implementation of a relatively small number of transformational, cross-sectoral projects with the potential to significantly advance the sector towards achievement of strategic policy goals. During the Second MTP, the Sector Working Group (SWG) will play a greater role in coordinating the efforts of various players.

- Initiatives under the Second MTP will be implemented by Government (notably the regulators) and private sector providers working together.

- There will be increased focus on gender issues and identifying opportunities for mainstreaming gender considerations in each of the initiatives. In addition, consideration will be given to climate change and green initiatives as they impact or relate to the sector.

- Facilitation of private sector led innovation will be a key driver of the strategy. The importance of encouraging innovation has been clearly demonstrated by the recent history of developments in the financial sector. Success in the field of mobile financial services showed the merits of

encouraging experimentation before developing a more formal regulatory framework. The conservative approach taken by many authorities elsewhere would have stifled an innovation, which in less than five years has changed the landscape of financial services in Kenya.

The Second MTP will focus on one Vision 2030 flagship project together with eight key transformational cross-sector programmes. These are summarised in Table 1 below. The flagship project is developing the Nairobi International Financial Centre. The programmes are intended to be large and transformational in nature. While the key initiatives bring together relevant related programmes from the plans of the different regulatory agencies, they are not intended to exhaustively capture all activity in the various sub-sectors. It is the role of the lead agencies in the various sub-sectors to establish the detailed planning needed to achieve the broader strategic goals set out here. Two other programmes, which fall under the National Treasury, are also listed here.

Table 1: Key Projects / Programmes

Flagship project	**Objectives**	**Key Pillar(s)**
1. Develop the Nairobi International Financial Centre	Establish Nairobi as an International Financial Centre and help Kenya gain a stronger presence in sub-Saharan Africa's growing financial services market.	Access Efficiency
Programmes	**Objectives**	**Key Pillar(s)**
1. Streamline the Architecture of the Sector	Develop and implement policies to streamline the architecture of the financial services sector in order to have sectors with strong stable service providers who can compete regionally, while avoiding market domination by one or two players.	Efficiency Access Stability
2. Modernise Supervision	Improve the stability of the financial services sector by full implementation of Risk Based Supervision and adherence to core principles. Ensure that regulators are equipped to deal with new risks emerging from new channels, institutions, conglomerates and cross border operations.	Stability
3. E-Payments	A shift to a 'e-payments' economy holds out the prospect of significantly reducing transaction costs across the financial system and especially in the provision of retail financial services. This could have a dramatic impact on improving access, both quantitatively and qualitatively.	Access Efficiency
4. Build Financial Capability	Develop a comprehensive consumer protection framework for transparency, fair treatment and recourse across all sub sectors. Develop and implement a broad sustainable public/private programme to increase the financial capability of all Kenyans.	Stability Access
5. Stimulate Long Term Savings	Mobilise more funds at the sector level for investment by the Government and private sector. Increase individual savings for personal investments in health, education, housing etc. Reduce vulnerability by providing a replacement pension (income) in old age and providing appropriate protection, through insurance, against risks such as illness, accident, adverse weather etc.	Access Efficiency
6. Improve the (vi) Lending and Investment Environment	Facilitate an increase in productive investment through both debt and equity especially for SMEs by improving the credit information infrastructure and investment.	Efficiency Access
7. Transform the Government Debt Market	Contribute to increased debt sustainability and reduce costs of government debt by the use of new instruments, intermediaries and technologies.	Efficiency

8.	Promote EAC Financial Services Integration	Promote greater integration in financial services across the EAC in order to facilitate cross border operations and movement of capital.	Access Efficiency Stability
(vii)	Other Programmes	Objectives	Pillars
1.	Climate Change Fund	Establish vehicle for mobilising and allocating resources from international development partners towards climate change activities in Kenya, and which could also be used for allocating domestic public resources towards climate change actions.	Not applicable
2.	Investment Climate	Develop a programme to facilitate improvement of the investment climate.	

4.2 Flagship Projects

Nairobi International Financial Centre

Sustained economic growth across sub-Saharan Africa combined with Nairobi's established position as a regional economic centre and the third largest financial sector on the continent creates a major opportunity for Kenya. Under a Vision 2030 flagship project, Nairobi will be established as an international financial centre helping Kenya gain a stronger presence in sub-Saharan Africa's growing financial services market. The proposed Financial Centre will be modelled after similar facilities in Qatar, Ireland and Mauritius. In addition to creating jobs, the initiative is expected to help raise funds for projects and tap into new investments coming to Africa. Financial incentives will encourage investment groups, stock brokerages, pension funds, banks and insurance companies to set up offices at the Nairobi International Financial Centre (NIFC). The key initiatives include:

(i) Developing the overall framework and establishing the Nairobi International Financial Centre Authority (NIFCA)
(ii) Establishing partnerships with other centres through MoUs and attracting investors
(iii) Launching and operationalizing the NIFC

4.3 Key Financial Services Programmes

4.3.1 Streamline the architecture of the sector

This programme will be focused on the architecture or market structure of the sector. The key objective is to have sectors with strong stable service providers who can compete regionally, while avoiding market domination by one or two players. The key initiatives include:

- Develop strategy for competition and consolidation in the banking sector.
- Establish overall pension's policy framework.
- Establish insurance policy framework.
- Develop and implement strategy for consolidation of the SACCO sector
- Develop and implement restructuring strategies for GOK owned institutions (DFIs, NSSF, NHIF, NHC)

4.3.2 Modernise supervision

The objective of this programme is to improve the stability of the financial services sector by modernizing the supervisory approach for all sectors in line with emerging new international standards. Although considerable progress has already been made in improving supervision in recent years, especially in the key banking sub-sector, further work is needed. It involves the following initiatives:

- Fully implement risk based supervision for all regulators(including frameworks to address new risk areas (primarily cross border operations, agent banking, mobile banking etc.).
- Implement consolidated supervision of conglomerates (with regulators working together) domestically and regionally due to cross-border operations of some financial institutions.
- Develop and implement policy for consolidation of supervisors (merger of regulators).

4.3.3 Facilitate the expansion of electronic payments

Kenya is perhaps uniquely well positioned among developing and emerging economies to move aggressively towards the reduction of cash in the economy. The goal here should not be to eliminate cash – nowhere in the world has this been achieved. For many very low value transactions, cash remains a highly attractive means of payments. Nevertheless, a dramatic reduction in the role of cash in the economy is a much more realistic prospect capitalising on the ubiquitous usage of mobile phone based financial services in Kenya. If successful, the achievement of a 'cash-lite' economy through the expansion of e-payments holds out the prospect of significantly reducing transaction costs across the financial system and especially in the provision of retail financial services. This could have a dramatic impact on improving access, both quantitatively and qualitatively. Specific initiatives envisaged are:

- Operationalising the National Payment Systems Act to establish and efficient institutional framework with clear lines of responsibility
- Developing a "cash-lite" strategy
- Expanding the use of e-payments for all Government transactions (social protection programmes, revenue raising and payments).

4.3.4 Build financial capability

The absence of a sector-wide consumer protection law or authority has practically resulted in the lack of effective and comprehensive financial consumer protection and recourse. Promoting financial services consumer protection and financial literacy will not only benefit customers in the short term but in the long term it will also benefit the capacity of financial institutions to expand the outreach of their services. It will help build trust which lies at the heart of the relationship between customers and providers in the financial industry. This programme seeks to develop a comprehensive financial services consumer protection and financial education framework. The key initiatives are:

- Develop policy and legal framework for consumer protection and financial education.
- Develop institutional framework and strategy for consumer protection
- Develop and implement a national financial education programme.

4.3.5 Stimulate long-term savings and reduce vulnerability

This programme has three broad objectives: (i) to increase individual savings for personal investments in education, housing etc, (ii) to provide a replacement pension (income) in old age and (iii) to provide appropriate protection, through insurance, against risks such as illness, accident, adverse weather etc. The programme includes the following initiatives:

- Reduce vulnerability by introducing a micro insurance framework
- Develop a "pillar 0" universal pension
- Increase opportunities for individual savings through development of a retail savings bond and implementation of a SACCO savings strategy
- Development of a harmonised framework for deposit protection

4.3.6 Improve the lending and investment environment

The legal and regulatory framework together with the implementation and enforcement processes play a major role in determining the costs of financing productive investment through the formal financial system, whether via debt or equity. There are opportunities to improve the financing environment by improving the efficiency of established key elements of the institutional framework and introducing new instruments. The programme will focus its efforts on areas which most directly impinge on the functioning of the financial services sector. A particular emphasis will be placed on elements that improve the efficiency and access to finance small and medium enterprises (SMEs). The initiatives include:

- Expand the credit information sharing system to DTSs and utilities
- Develop and implement the Securities Act.
- Facilitate new sources of equity investment by implementing the Growing Enterprises Market Segment (GEMS) at the NSE.
- Facilitate new debt products for SMEs

4.3.7 Transform the Government debt market

The Government intends to reduce the overall ratio of public debt to GDP from 45.9% in FY 2011/12 to 42.0% over the medium-term. Medium-term fiscal policy envisages continued borrowing from domestic and external sources with the latter largely on concessional terms. The Government will ensure that the level of domestic borrowing does not crowd out the private sector given the expected increase in private investment with accelerated economic expansion. Against this background, in parallel, this initiative will transform the Government debt market through the following elements:

- Issue sovereign bonds.
- Consolidate government bonds.
- Introduce new market intermediaries (e.g. market makers for bond markets).
- Introduce new trading counters/technologies.

4.3.8 Promote EAC financial services integration

Work is already well advanced on integration of the financial services sector across the East African Community and is recognised as an important contributor to closer economic integration. Kenya's financial sector is growing strongly regionally with many of the larger banking groups already having established operations across East Africa. The objective of integration is to facilitate trade, enable cross-border operations and movement of capital. The key initiatives related to the financial service sector are:

- Mutual recognition of securities exchanges and phase in of common regulations.
- Defining the role of East African Central Bank in prudential supervision.
- Developing integrated market infrastructure for payments transactions.

4.4 Other Programmes

This section includes other programmes in the financial services sector dealing with climate change/ green initiatives and the investment climate.

4.4.1 Climate Change Fund

The Government has developed an ambitious Climate Change Action Plan in 2012, the implementation of which will contribute to an effective response to climate change in Kenya. This is an ambitious programme, which will require substantial investment. Raising the necessary capital is currently impeded

by a number of barriers; overcoming these will require public finance. Some of the key barriers to scaling up investment to the magnitude envisaged include policy and regulatory weaknesses, difficulties in accessing commercial finance and technical capacity shortcomings. However, the judicious use of public resources – on many occasions as a tool to stimulate greater levels of private sector investment – can play a key role in overcoming the barriers.

The creation of a Kenya Climate Fund (KCF) has the aim of delivering these public resources. The Fund will be the key vehicle for mobilising and allocating resources from international development partners towards climate change related activities in Kenya, and can also be used for allocating domestic public resources towards responses to climate change. Key features of the Fund include a focus both on mitigation and adaptation activities; it will evolve in a phased manner starting with providing grant financing before evolving to offer a wider palette of financing instruments. Its aim will be to catalyse private sector funding through interacting with other financial intermediaries (e.g. commercial banks). Governance will be broad based with equal representation from the Government, civil society and the private sector. In this way, the Fund would have the potential to evolve to become the primary recipient of multilateral and bilateral climate finance flows mobilised by Kenya. This programme envisages the following initiatives:

- Design of the fund structure and governance.
- Develop policy paper and cabinet memo.
- Establish institutional arrangement for fund.
- Mobilize financing.
- Implement grant programme.

4.4.2 Investment Climate

The legal and regulatory framework together with the implementation and enforcement processes play a major role in determining the competitiveness of an economy. The Government, through KenInvest will develop a programme to facilitate improvement of the investment climate. This programme includes the following initiatives:

National Investment Policy: The overall policy framework in Kenya on investments is embedded in various laws and regulations. Kenya therefore does not have a central piece of policy to guide on investments development. Investment policies can be found in various documents such as acts of Parliament, legal notices, sessional papers, strategies, the Vision 2030 and development plans. Lack of a harmonized investment policy has sometime resulted in contradictory and conflicting policies and legislations. This initiative therefore aims to develop a coherent "National Investment Policy" to provide a clear direction on how to stimulate investments for realization of the economic goals especially under the new Constitutional dispensation.

Project development and match-making: To enhance Kenya's competitiveness in attracting investors, the investment promotion activities will be strengthened so that they not only focus solely on policies and general overview of Kenya's investment opportunities but also provide viable and bankable projects to investors. Many Vision 2030 flagship projects will require private sector participation to be implemented. To accelerate the pace of development, appraisal and presentation of the projects to investors, the projects will be packaged with information relevant to investors.

Development of the Invest-Kenya brand: The biggest priorities for investors are 'political stability', 'security', 'conducive regulations' and 'ease of doing business' while the key strength they are looking for is 'economic growth potential'. However, investors outside Africa tend to associate Kenya with any bad news emanating from the continent as a whole. Without any major brand advantage difference, Kenya's

investment environment is perceived to be contingent on the continent's situation. This project therefore proposes to develop the 'Invest-Kenya' brand to promote Kenya as a distinct investment destination.

Investment Climate Index: Following the introduction of devolved government under the new constitution, it is envisaged that several challenges are likely to be faced by the private sector. Key risks are overregulation, punitive administration of statutory requirements and multiple taxation as the county governments try to establish a revenue base. This initiative will develop a national investment climate index that compares the competitiveness of the counties by assessing various parameters that affect the investment environment. The resulting competition will provide transparency to investors and create an incentive for county governments to focus on private sector friendly policies.

5 POLICY LEGAL AND INSTITUTIONAL REFORMS

As highlighted in Chapter 4, provision of financial services will continue to be led by the private sector. The Government will focus on its primary role of providing the enabling environment for sector growth and development through an appropriate policy, legal and regulatory framework. The policy, legal and regulatory framework changes necessary for the projects and programmes are highlighted below:

a. Banking

The overall policy direction for banking reform has already been well established and Second MTP will see a continuation of this policy. As part of these reforms a new Banking Bill was drafted providing a comprehensive overhaul of the current legislation. However during the course of MTP1 a number of amendments were issued to facilitate a number of the reforms discussed earlier (such as introducing agent banking). Although there remains a case for pursuing the proposed comprehensive re-working of the legislation to provide greater clarity, the incremental approach taken has proven successful and allowed reforms to move forward more rapidly. This approach will be continued, at least in the short-term.

Work has recently been completed relating to interoperability of the payment system in Kenya – a key policy concern. Among the recommendations is the establishment of a National Payments Council (NPC) comprising of Government, industry player and other relevant stakeholders to support the future development of the payments system. The proposed new NPC will support the development of a new payments strategy, specifically seeking to gain the benefits from increased cross-industry co-operation to maximise the benefits from new technology. Major new primary legislation has already recently been established to guide the development of the payments system in the form of the National Payment System Act. New regulations have already been developed and are due to be issued shortly. The emphasis in the initial period of the Second MTP will be on implementation of this new framework.

b. Saccos

A comprehensive review of policy for the Saccos sub-sector will be undertaken, as noted above. This will be aimed at providing a clear policy direction to maximise the contribution of Saccos to Kenya's future financial system. Although the immediate priority remains the successful implantation of the new prudential regulatory framework for deposit-taking Saccos, the future role of the ubiquitous smaller, rural Sacco remains to be well-defined. Furthermore in a more competitive market where banks, DTMs and Saccos will be addressing increasingly similar markets, the Sacco movement will need to modernise its offering if it is to retain its relevance. The outcome from this policy review is likely to include changes in both the legislation and regulations.

c. Capital Markets

Further evolution of the regulatory environment will be essential to achieving the goals for capital market development under the Second MTP. The CMA is in the process of developing and implementing the following regulations;

- Real Estate Investment Trusts (Collective Investment Schemes) Regulations.
- Amendments to the Public Offers Regulations to provide for a book building framework to support transparent price discovery for Initial Public Offerings (IPOs)
- Regulations to support regional issuance
- Development of EAC directives
- Establishment of the necessary policy, legal and regulatory framework to support a futures exchange in Nairobi

d. Insurance

Over the MTP1 period, the IRA implemented a number of initiatives aimed at realising Vision 2030 objectives for the sub-sector including the development of various policy documents. Material gains were recorded on a number of fronts with enhancements to existing legal and regulatory instruments. Further, there were new issuances of prudential guidelines to further improve the regulatory environment of the insurance sector in line with national policy objectives. The Insurance Act provides the overarching legislative basis for regulation of the insurance sub-sector. The Act was reviewed during the course of First MTP. It is planned that this process will be finalised during the Second MTP period with the necessary legislative amendments drafted and put forward to Parliament.

The current Insurance Act requires that all registered underwriters have in place appropriate reinsurance arrangements approved by the Commissioner of Insurance. Currently, the practice of reinsurance is that business in respect of all classes of insurance is placed internationally once the requisite mandatory local cessions have been ceded to Kenya Re, PTA Re and Africa Re. However the IRA has assessed the status of long-term business and is of the view that there is adequate local capacity to re-insure. The Government will review policy in this area in the course of Second MTP period.

e. Retirement Benefits

There remains a lack of harmonised legislation relating to retirement benefits. This will need to be addressed during the Second MTP. The RBA has developed a draft pension policy and the Government has already implemented some of the recommendations in this draft policy. Among the key policy proposals is the establishment of a state old age pension. This is currently being piloted in a number of counties. However the pension policy has yet to be finalised. It will require amendment to take account of the provisions of the new Constitution and other new developments in the pension sector. There is also a need for the policy to be harmonised with the Social Protection Policy developed by Ministry of Labour, Social Security and Services.

6 IMPLEMENTATION OF THE PLAN

Reiterating the point made earlier, the project and programmes under THE Second MTP are intended to be far-reaching and transformational in nature. All the Second MTP key project and programmes are expected to take 3-5 years to complete and will be overseen by the Sector Working Group (SWG). While the key programmes bring together related initiatives from the plans of the different regulatory agencies, they are not intended to capture all the reform initiatives to be undertaken in the sector over the period covered by the Second MTP.

The Chair of the SWG, the Permanent Secretary to the Treasury, will play an expanded role in coordinating the efforts of various players. In this activity, he will be supported by the assignment of a senior point person for each project/programme. Table 3 below shows the expected roles of each of the regulators and the Ministry of Finance in implementation of the key project/programmes.

Table 3: Implementation Roles (Financial Services Programmes only)

	The National Treasury	CBK	CMA	IRA	RBA	SASRA	KENINVEST
1. Nairobi International Financial Centre	Lead agency	Major role	Major role	Supporting role	Supporting role	Supporting role	Supporting role
2. EAC Financial Services Integration	Lead agency	Major role	Major role	Supporting role	Supporting role	Supporting role	Supporting role
3. Supervision of Financial Services	Supporting role	Lead agency	Major role	Major role	Major role	Major role	Major role
4. Architecture of Financial Services Sector	Lead agency	Major role	Major role	Major role	Major role	Major role	Major role
5. Government Debt Market	Lead agency	Major role	Major role	Supporting role	Supporting role	Supporting role	Supporting role
6. Long Term Savings	Major role	Major role	Major role	Major role	Lead agency	Major role	Major role
7. E-Payments and Interoperability	Major role	Lead agency	Supporting role	Supporting role	Supporting role	Supporting role	Supporting role
8. Lending and Investment Environment	Supporting role	Major role	Lead agency	Supporting role	Supporting role	Supporting role	Supporting role
9. Financial Capability	Lead agency	Major role	Major role	Major role	Major role	Major role	Major role

Key: Lead agency	(black)	Major role	(dark grey)	Supporting role	(light grey)

ANNEX 1. KEY INDICATORS

	Indicator[1]	Year	ACTUALS						TARGETS				
			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	OVERALL												
1	GDP Growth	%	7.0	1.5	2.7	5.8	4.4	4.7*	5.05	5.6	6.0	6.4	6.7
2	Financial Sector Contribution	% of GDP	6.6	2.7	7.2	9.0	7.8	6.2	6.9	7.1	7.1	8.7	9.1
3	Gross National Savings	% of GDP	15.6	11.9	13.4	14.7	11.2	10.4	11.2	13.0	15.1	17.4	21.1
4	Private (& other Govt.) Investment	% of GDP (FY)	-	-	-	12.4	10.7	11.0	12.9	14.2	15.1	16.4	17.4
	SUB SECTOR SIZE												
5	Banking Assets(Net)	KSh.bn.	951.2	1,183.7	1,353.5	1,678.1	2,020.8	2,354	2,707	3,113	3,580	4,117	4,735
6	Capital Markets Assets[2]	KSh.bn.	1,156	1,173	1,279	1,754	1,559	1,990*	1,988.	2,385	2,862	3,435	4,122
7	Insurance Assets	KSh.bn.	146.5	154.4	178.4	223.5	245.6	255.1	285.4	309.9	334.2	358.6	382.9
8	Retirement Benefits Assets	KSh.bn.	263.7	272.3	313.9	451	432.8	522	548	575	603	633	664
9	Deposit Taking Saccos Assets	KSh.bn.	115.9	134.0	146.2	171.3	196.3	222	251	283	320	362	409
ACCESS													
	Total inclusion	% of adults	58.7	n/a	67.3	n/a	n/a	75*			80		90
	Formal inclusion	% of adults	18.5	n/a	22.6	n/a	n/a	40*			60		70
	Private Sector Credit	% of GDP	26.9	29.9	30.3	33.3	38.1	39.0*	40.0	42.0	44.0	46.0	48.0
10	**Banking**												
	Deposit accounts (insured)	No. m	4.123	6.428	8.481	11.881	14.251	17.617	18.500	20.000	21.500	23.500	25.500
11	**Saccos**												

Indicator[1]		Year	ACTUALS						TARGETS				
			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Deposit Account Holders	No. m	1.2	1.4	1.9	1.9	2.6	15.9	17.5	19.3	21.2	23.3	25.6
12	**Capital Markets**												
	CDS Accounts as % of population	%	4	8	8	9	9	9	10.5	11.0	11.6	12.2	12.8
13	**Insurance**												
	Insurance Density		19.1	20.8	21.4	24	25.3	25.5	25.6	25.8	26.2	26.2	26.4
	Insurance Penetration	%	2.6	2.6	2.7	2.8	3.1	3.1	3.1	3.2	3.3	3.3	3.4
	Number of Policies (long term)	No. m	n/a	n/a	0.388	0.395	0.417	0.426	0.436	0.446	0.451	0.458	0.461
	Number of Lives (long term)	No. m	n/a	n/a	2.441	3.431	2.518	2.621	2.678	2.703	2.715	2.721	2.718
14	**Retirement Benefits**												
	Pension Coverage	% of labour force	n/a	15.9	15.6	15.7	n/a	15.9	16.4	16.9	17.4	17.9	18.5
	EFFICIENCY												
	Interest Rate Spread	%	8.2	8.7	8.8	10.3	13.0	12.0	11.0	10.0	9.0	9.0	8.0
15	**Banking**												
	RoE	%	28.0	26.1	24.9	27.9	30.7	29.7	28.0	26.0	24.0	22.0	20.0
	RoA	%	3.5	3.5	3.5	4.4	4.4	3.6	3.4	3.2	3.0	2.8	2.6
	Cost to Income Ratio	%	62.4	64.2	64.0	58.3	56.9	47	46	45	44	43	42
16	**Saccos**												
	RoE	%	n/a	n/a	n/a	n/a	15.11	13.57	15.13	14.25	15.60	16.11	16.54
	RoA	%	n/a	n/a	n/a	2.35	1.92	1.87	2	2	3.2	3.7	4.4
	Cost to Income Ratio	%	n/a	n/a	n/a	2.95	3.14	3.14	61	62	62	62	62
17	**Capital Markets**												

Indicator[1]		Year	ACTUALS						TARGETS				
			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Efficiency (Equity) - Turnover/MCAP i.e. Liquidity Ratio)	%	10	11	5	10	9	6	6.6	7.5	8.7	10.0	11.5
	Efficiency (Bonds) - (BTO/Bond MCAP)	%	28	30	25	82	65	79	66.8	67.8	68.8	69.8	70.0
18	**Insurance**												
	Insurance Premiums (Vol.)GPI	KSh.bn	48.0	55.0	65.0	76.9	91.8	111.1	122.06	134.57	147.08	159.59	172.1
	Claims settlement(Claims payment under general insurance business) Claims ratio		62.9	61.0	63.9	59.4	58.9	59.6	58.22	59.30	59.1	58.84	58.76
19	**Retirement Benefits**												
	Administrative costs/Total Assets	%	n/a	n/a	n/a	n/a	n/a	1.4	1.37	1.34	1.31	1.29	1.27
	STABILITY												
20	**Banking**												
	Core Capital/TRWA	%	18	18	19	20	18	8	8	8	10.5	10.5	10.5
	Total Capital/TRWA	%	19	20	21	22	21	12	12	12	14.5	14.5	14.5
	Core Capital/Total Deposits	%	15	15	16	17	16	8	8	8	8	8	8
21	**Saccos**												
	Core Capital/ Total Assets	%	n/a	n/a	n/a	9.47	10.44	15.63	9	9	10	11	12
	Core Capital /Total Deposits	%	n/a	n/a	n/a	18.81	19.67	22.07	14	14.3	15	16	17
	Institutional C. / Total Assets	%	n/a	n/a	n/a	2.67	3.29	7.27	8.6	8.1	7.9	8.3	8.7

Indicator[1]		Year	ACTUALS						TARGETS				
			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Non-performing Loans ratio	%	n/a	n/a	n/a	n/a	7.06	6.81	7.6	7.1	6.8	6.7	6.3
22	**Capital Markets**												
	Stability (Annual Volatility of NSE 20 Index)	%	-3.6	-35	-7.8	37	-28	29	10	10	10	10	10
23	**Insurance**												
	Combined ratio (non-life)	%	99	94.3	97.8	94.3	94.3	96.57	95.6	94.7	94.33	95.49	94.47
	Capital and Reserves	KSh.bn	38.3	37.9	41.5	58.6	60.8	63.1	71.00	77.00	83	89	95
	Total Insurance Assets	KSh.bn	146.5	154.4	178.4	223.5	245.6	255.1	285.4	309.9	334.2	358.6	382.97
	Total Insurance Liabilities	KSh.bn	23.6	115.9	136.9	164.8	185.5	192	214.48	235.9	251.24	269.61	288
	Capital (shareholders' funds) to Assets ratio	%	26.2	24.5	23.2	26.2	24.8	23	22	22	21	23	24
	Solvency Margin ratio (Long-term Business)	%	272	147	178	276.1	238	231.6	213	186.3	194.3	233.4	230.2
	Solvency Margin ratio(General Business)	%	502	404	295	460.1	415	423	407.2	325	468	421	452
24	**Retirement Benefits**												
	Overall Risk Score	Index	na	na	na	na	1.15	0.91	0.82	0.74	0.66	0.60	0.54

ANNEX 2: IMPLEMENTATION MATRIX

Flagship Project: Nairobi International Financial Centre

Goals	Kenya has stronger presence in sub Saharan financial service market										
Strategic objectives	Establish Nairobi as an International Financial Centre										
Initiative	**Objective**	**Outcome / Output**	**Performance Indicator**	**Lead Agency**	**Time Frame**	**Source of funds**	**Budget**				
							2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Framework	Develop conceptual framework and establish institutional structure	Legal and institutional framework established	• Action plan completed • Legislation drafted • Nairobi International Financial Centre Authority (NIFCA) established	MoF	2012-2013		30				
Partnerships and marketing	Develop partnership and attract investors	Critical mass of potential new business identified and investment committed	• MoUs signed • Marketing campaign completed • Investment commitments	MoF/ NIFCA	2013-2014		100	200			
Launch and operations	Operationalise NIFC	NIFC operational	• NIFC design completed • NIFC launched	NIFCA	2013-2015			70			

Programme 1: Architecture of the Financial Services Sector

Goals	Competitive, efficient and stable market structure for financial services in Kenya										
Strategic objectives	Develop and implement policies to streamline the architecture to encourage consolidation and promote competition										
Initiative	**Objective**	**Outcome / Output**	**Performance Indicator**	**Lead Agency**	**Time Frame**	**Source of funds**	**Budget**				
							2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Banking competition and consolidation	Develop strategy for competition and consolidation	More competitive banking sector	• Banking sector competition study completed • Strategy paper prepared • Amendments to legislation drafted	CAK CBK	2013-2014		5				
Insurance sub-sector framework	Develop policy framework for insurance	Stronger insurance sector	• Policy paper prepared • Cabinet memo and draft legislation approved	IRA	2013-2014		2				
Pensions sub-sector framework	Develop policy framework for pensions	Stronger pensions sector	• Policy paper prepared • Cabinet memo and draft legislation approved	RBA	2013-2014		2				
SACCO sub-sector framework	Develop strategy for consolidation	Stronger Sacco sector	• Sacco strategy prepared • Amendments prepared to SACCO Societies Act	SASRA	2013-2014		2				

Restructuring of GoK owned financial institutions	Develop and implement restructuring strategies for Government owned financial institutions	More efficient and effective institutions	• DFI restructuring policy implemented • NSSF, NHIF and NHC restructuring strategies developed and implemented	MoF	2013-2014		5				

Programme 2: Supervision of Financial Services

Goals	Kenya's financial services sector is stable and well regulated										
Strategic Objectives	Modernize the supervisory approach Increase efficiency and effectiveness of supervision										
Initiative	**Objective**	**Outcome/ Output**	**Performance Indicator**	**Lead Agency**	**Time Frame**	**Source of funds**	**Budget**				
							2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Risk based supervision	Fully implement risk based supervision	Stable financial services sector	• Compliance with all applicable international codes and standards • FSAP confirms compliance with risk-based model	CBK, IRA, RBA, CMA, SASRA	2012-2014		15	15			
Consolidated supervision	Implement consolidated supervision of conglomerates	Reduced risk from large financial service groups	• Pilots successfully completed • Integrated risk oversight reporting on major financial service groups	CBK, IRA	2013-2014		5	5			

Consolidation of supervisors	Develop and implement policy	Greater efficiency and effectiveness in prudential supervision	• Policy paper prepared • Cabinet memo and draft legislation approved	MoF	2013-2015		5	10	5		

Programme 3: E-Payments economy

Goals	Increased financial inclusion through lower cost and more convenient electronic financial transacting										
Strategic Objectives	Establish Kenya on the path to achieving the ubiquitous use of electronic payments across the economy										
Initiative	**Objective**	**Outcome / Output**	**Performance Indicator**	**Lead Agency**	**Time Frame**	**Source of funds**	**Budget**				
							2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Enabling institutional framework	Operationalize the National Payment Systems Act	Institutional framework for electronic payments	• National Payments Council established • National Payments Board established	CBK	2013-2014		5	5			
E-payments national strategy	Develop a national strategy for shift to a "cash-lite" economy	Sustained and effective coordinated public and private sector action to support expansion of e-payments	• Draft strategy developed • Final strategy adopted by stakeholders	CBK	2013-2014		5	5			
Electronic Government payments	Expand the use of e-payments for GoK transactions	Increased efficiency, transparency and security in government payments	• All major social payment schemes paid electronically • All major G2P and G2B payments undertaken electronically • All major P2G and B2G payments to be feasible through electronic channel	MoF	2013-2015		10	10	10		

Programme 4: Financial Capability

Initiative	Objective	Outcome/Output	Performance Indicator	Lead Agency	Time Frame	Source of funds	Budget				
							2013/14	2014/15	2015/16	2016/17	2017/18
Goals	Increase the financial capability of Kenyans										
Strategic Objectives	Develop and enforce a comprehensive and effective framework of consumer protection for financial services Create a sustainable national financial education programme delivering significant improvements in household financial management										
Policy	Develop a policy and legal framework	Shared national vision and enabling legal and institutional framework for effective financial consumer protection and education	• Policy paper prepared • Cabinet memo and draft legislation approved	MoF	2013-2014		4	2			
Consumer Protection	Develop and implement strategy for financial consumer protection	Industry and regulators working effectively to improve consumer rights and outcomes	• Institutional framework for consumer protection established • Consumer protection strategy developed and approved • Industry codes of conduct developed	MoF	2013-2015		5	10	5		

Financial Education	Develop and implement national strategy	Well defined strategy and programme to encourage effective investments in financial education	• Financial education strategy developed and approved • National curriculum for schools designed	CBK	2013-2015		5	10	5		

Programme 5: Long Term Savings

Goals	Increase in national savings rate
Strategic Objectives	Increase opportunities for individual savings for personal investments in health, education, housing etc. Provide replacement pension (income) in old age and appropriate protection, through insurance, against risks

Initiative	**Objective**	**Outcome/Output**	**Performance Indicator**	**Lead Agency**	**Time Frame**	**Source of funds**	**Budget**				
							2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Pensions	Expand provision of old-age pensions	Reduction in old-age poverty	• Pillar 0 universal pension policy developed • Pillar 0 pensions launched • Decrease in proportion of people aged over 65 living in poverty	RBA		2013-2015	5	10	5		
Micro-insurance	Expand availability and use of micro-insurance services	Reduction in vulnerability of households to routine livelihood threats	• Micro-insurance policy developed and approved • Micro-insurance products launched	IRA		2012-2014	2	2			

Savings	Increase opportunities for individual savings	Increased savings by individuals	• Retail savings bond strategy developed • Retail savings bond launched • SACCO savings mobilization strategy developed • SACCO savings strategy implemented	MoF, CBK, SASRA		2013-2014	2	2			
Deposit Protection	Harmonise the framework for deposit protection	Individual savers adequately protected	• Harmonisation strategy developed • Strategy implemented	MoF, All regulators		2014-2015		1	1		

Programme 6: Lending and Investment Environment

Goals	Increase in financing available to small and medium enterprises Create an enabling environment for business and investments
Strategic Objectives	Improve the credit information infrastructure Facilitate new market segments for equity investment Facilitate new products for short term supply chain and asset finance for enterprises Raise Kenya's Investment as a percentage of GDP from current levels of about 11% to 17.4% as projected in the Budget Review & Outlook Paper Market Kenya as the ultimate investment environment in the region

Initiative	**Objective**	**Outcome/ Output**	**Performance Indicator**	**Lead Agency**	**Time Frame**	**Source of Funds**	**Budget**				
							2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Development of a National Investment Policy	Provide a clear direction on investment stimulation, promotion and growth for realization of economic goals	Increased foreign and local direct investments	• National Investment Policy	MoF/ KenInvest	2013-2017		5	5	5	5	5
Credit Information System	Expand the credit information system	Credit available at lower cost to wider range of businesses and households	• Policy paper prepared and approved • DTSs included in credit information system • Utilities included in credit information system	MoF CBK	2012-2014		3	3			

Equity Market	Expand formal equity markets to include SMEs	Increased equity investment in SMEs	• Expansion in equity investment provided to SMEs through NSE	CMA	2013-2014		3	3			
Investment Climate Index	Develop a National Investment Climate Index	Compare the competitiveness of counties	• Index development and able to compare and rank county competitiveness	KenInvest	2013-2017		38	38	38	38	38
Credit Products	Facilitate new credit products for SMEs	Increased credit available to SMEs	• Policy paper on leasing and factoring prepared and approved • New legislation/ regulations drafted • Single register for security documents for moveable assets established	MoF CBK KRA	2013-2015		3	4	3		

Programme 7: Government Debt Market

Goals	Increased debt sustainability and reduced cost of government debt										
Strategic Objectives	Introduce the use of new instruments, intermediaries and technologies										
Initiative	**Objective**	**Outcome/ Output**	**Performance Indicator**	**Lead Agency**	**Time Frame**	**Source of Funds**	**Budget**				
							2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Products	Introduce new products	Broader range of government debt products	• International sovereign bond policy developed and approved • International sovereign bond issued • Domestic treasury bonds consolidated	MoF	2013-2014		3	3			
Markets	Introduce new markets and technologies	Broader range of intermediaries	• New market makers for bond markets established • New trading counters established	CMA	2013-2015		3	4	3		

Programme 8: EAC Financial Services Integration

Goals	Single market for financial services market created in the EAC										
Strategic Objectives	Greater efficiency of financial intermediation through increased competition and scale-economies Increased cross-border trade facilitated by integrated financial system Greater movement of capital within the EAC										
Initiative	**Objective**	**Outcome/Output**	**Performance Indicator**	**Lead Agency**	**Time Frame**	**Source of funds**	**Budget**				
							2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Capital Markets	Mutual recognition of stock exchanges	Larger market for capital markets trading	• MoU / Protocol signed	CMA	2012-2014		2	2			
Banking Supervision	Establishment of the EACB	Harmonised approach to regulation encouraging cross-border operations	• Role of EACB in prudential supervision defined	CBK	2013-2014		2	2			
Payments System	Integrated RTGS	Lower cost, more timely and secure payments across the EAC	• Interconnection of national RTGS systems completed	CBK	2012-2014		2	2			