2019

Kenya Banking Industry

SHARED VALUE REPORT

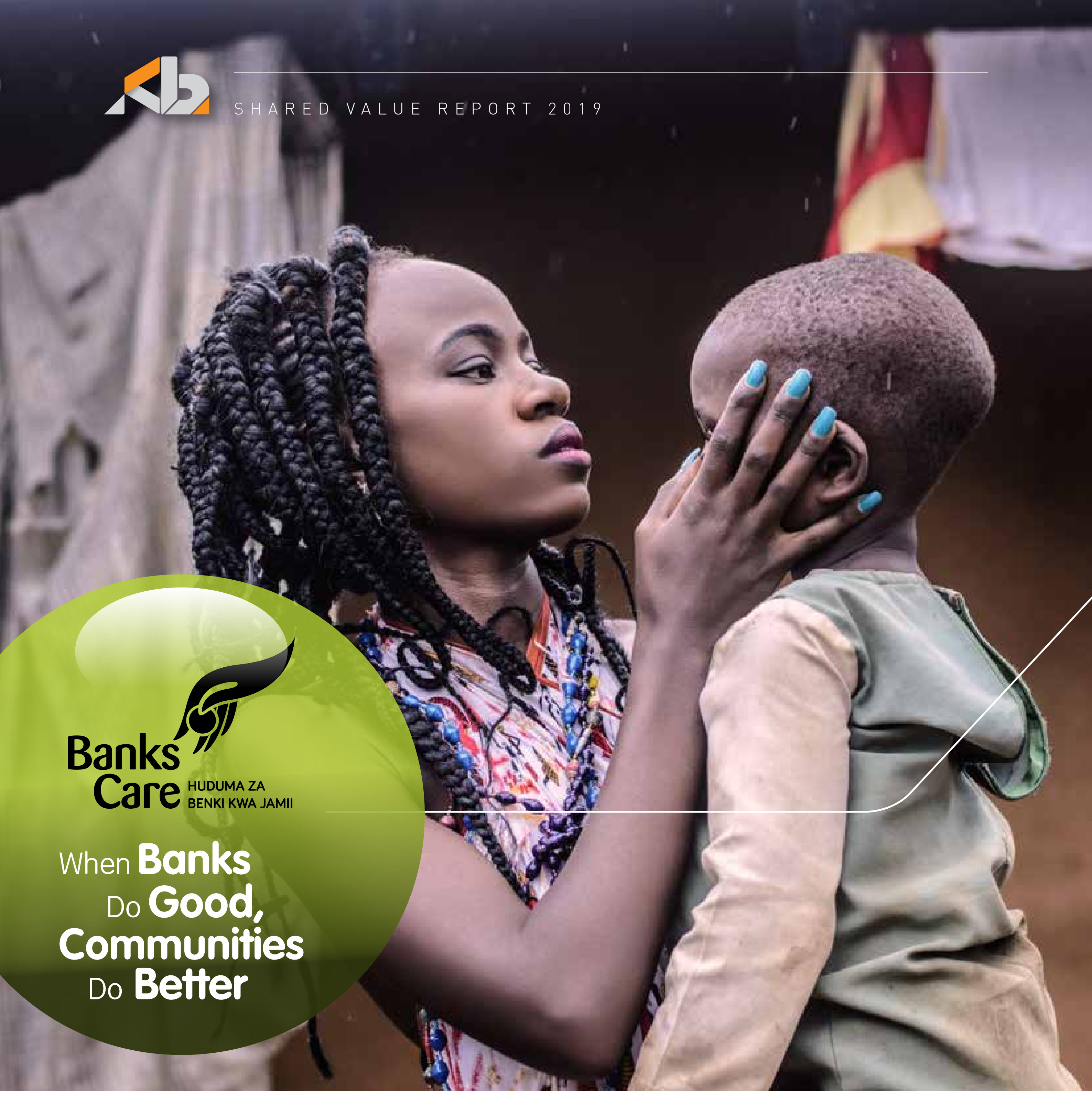
KENYA BANKERS ASSOCIATION

When **Banks** Do **Good,** **Communities** Do **Better**

Banks Care

HUDUMA ZA BENKI KWA JAMII

SHARED VALUE REPORT 2019



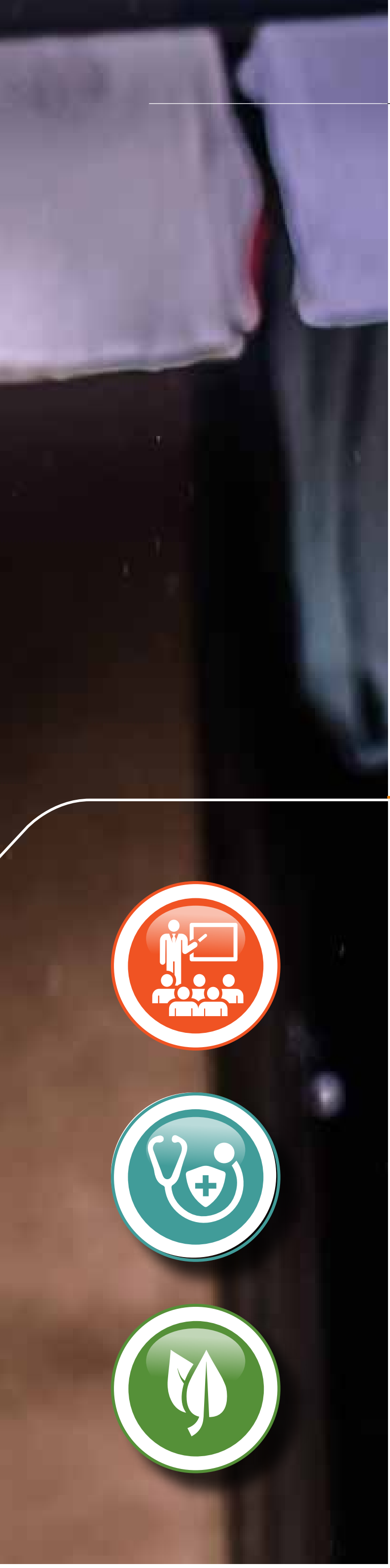


Photo by Dazzle Jam from Pexels

2019
Kenya Banking Industry
SHARED VALUE REPORT

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CEO FOREWORD

DR. HABIL OLAKA

CEO, KENYA BANKERS ASSOCIATION

Kenya's economy has recorded growth in recent years and the banking industry's role of facilitating sustainable development through affordable finance remains central. Today, new challenges stemming from global and regional geopolitics, technological disruption, social and environmental concerns have prompted a paradigm shift from traditional ways of doing business. Notwithstanding these dynamics, banks have continued to create value for the economy and society.

The Banking Industry Shared Value Report, 2019, which follows the previous report published by Kenya Bankers Association (KBA) in 2016, analyses how Kenyan banks are working with the various stakeholders in the public and private sectors, aligning to the national development agenda and Vision 2030 aspirations. We have seen several positive developments which we are pleased to present to you in this report.

Our key finding is the fact that when banks do good, our communities do better. Corporate Social Investment (CSI) is no longer a one-off engagement as previously perceived. Commercial banks in Kenya spent Sh2.1 billion in 2018 towards corporate social investment and a cumulative Sh6.7 billion over the past three years. In addition, direct support by

Sh2.1Bn
Corporate Social Investment (CSI) spend in 2018

Sh6.7Bn
Cumulative spend over the past three years

the industry of various initiatives was realized through marketing and sponsorships tied to social causes amounting to Sh1.7 billion.

The National Government has also benefited tremendously from banks' profitability. Tax revenue paid to the Government has increased exponentially over the years and in the 2017/2018 financial year, banks paid more than Sh73 billion to the Kenya Revenue Authority (KRA). Over the same period, commercial banks spent Sh39 billion creating employment opportunities.

At the same time, banks have lent a total of Sh2.53 trillion to the various sectors of the economy as at September 2018. Yet, much remains to be done to reduce the barriers to finance for vulnerable groups in the society, including women, youth and persons with disabilities. It is encouraging to see the creative approaches KBA member banks have adopted in recent years to knock down these barriers. We have highlighted some examples in this report.

KBA has worked hard to champion sector-wide initiatives such as PesaLink, the Inuka Enterprise Programme and Sustainable Finance Initiative that complement efforts by individual banks to increase industry efficiency and relevance, while combating the systemic challenges we face as a country.

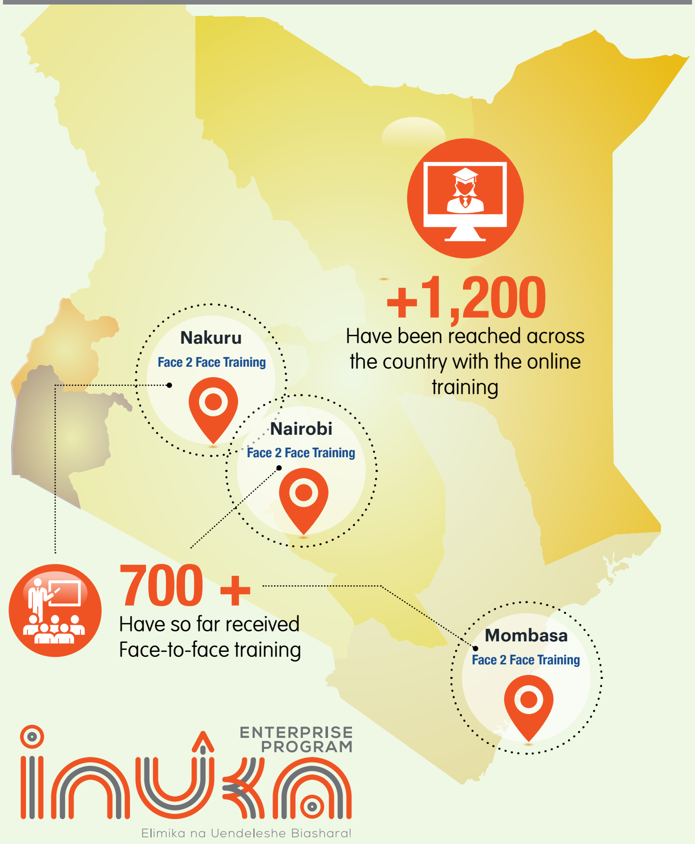
The biggest headwind met by banks has been the Banking (Amendment) Act, 2016 which introduced interest rate controls and stymied private sector access to credit. The unintended consequences of the legislation was exemplified by the downward trend in credit to the private sector recorded between 2016 and 2018. We are glad that the Government and regulators remain actively engaged in discussions to review the Act in favour of a system that delivers the most value for all stakeholders.

Finally, we are grateful for the support and commitment of our member banks in making this Shared Value report possible and their contributions to Kenya's sustainable development.


Banks Care
HUDUMA ZA BENKI KWA JAMII
When Banks Do Good, Communities Do Better
Top Social Investment Areas for Banks
1. Education
2. Health
3. Environment

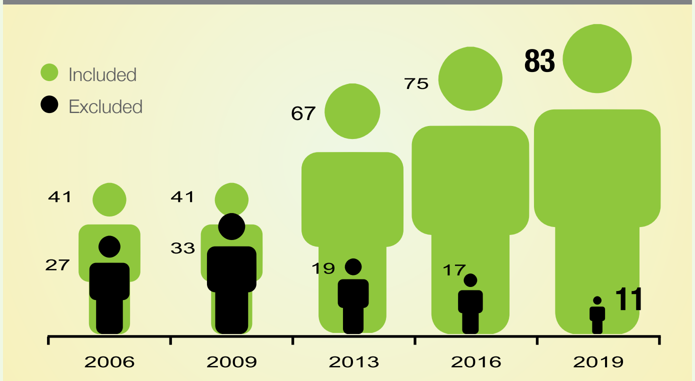
REPORT HIGHLIGHTS

Corporate Social Investment: Inuka Enterprise Program



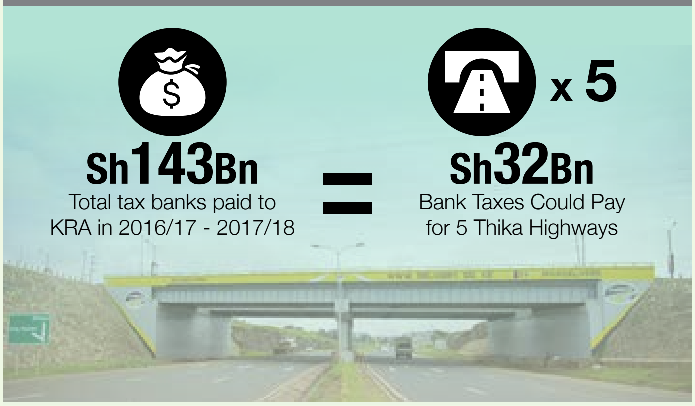
Source: Kenya Bankers Association

Financial Inclusion Trends as Percentage of Population



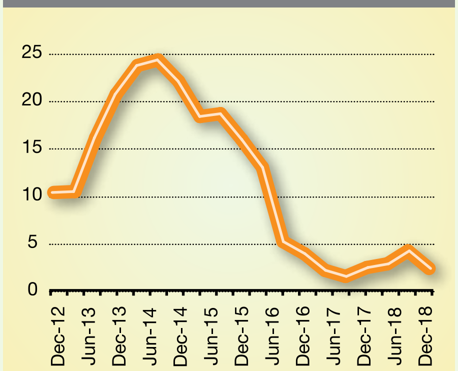
Source: FinAccess Household Survey 2019

Bank Taxes Could Pay for 5 Thika Highways



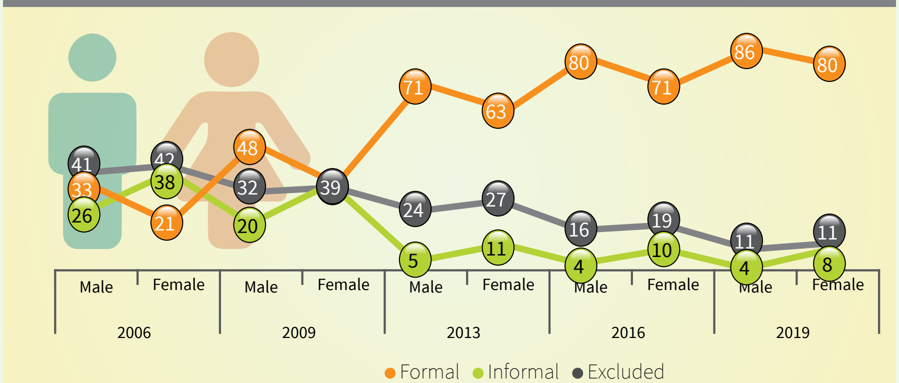
Source: Kenya Bankers Association

Growth in Private Sector Credit (%)



Source: Central Bank of Kenya

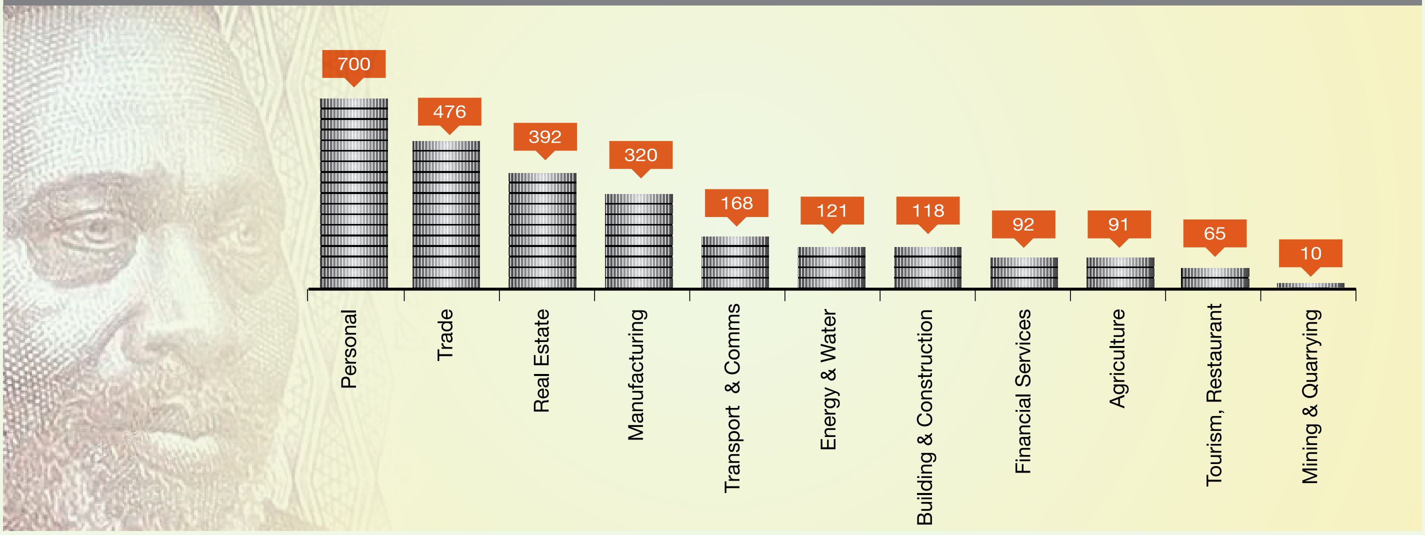
Financial Inclusion 2006 - 2019



Source: FinAccess Household Survey 2019

REPORT HIGHLIGHTS

Sectoral Distribution of Gross Loans 2018 (KshB)



Source: Central Bank of Kenya Credit Officer Survey 2018

Moveable Assets Collateral Types and Top Participating Banks

Collateral type	Registered	Top participating banks
Household items	198,873 Registered	KCB, KWFT, Equity, Co-operative Bank
Motor vehicle	86,010 Registered	NIC, Equity, KCB, CBA, Platimum Credit
Furniture	84,626 Registered	KWFT, KCB, Equity
Equipment	71,396 Registered	KWFT, KCB, Equity
Livestock	27,785 Registered	Equity, KCB
Stock trade	25,000 Registered	Equity
Inventory	19,010 Registered	Equity
Others	16,883 Registered	Equity
Bank Accounts	6,409 Registered	Equity, I&M, Standard Chartered
Immovable property	5,262 Registered	I&M, Equity
Securities	4,207 Registered	KCB
Acquired property	3,226 Registered	I&M, KCB, BOA
Crops	2,013 Registered	Equity, Juhudi Kilimo
Documents title	479 Registered	I&M
Consumer goods	455 Registered	Equity, Co-operative Bank
Intellectual property	364 Registered	Unaitas, Individuals
Negotiable instruments	97 Registered	CBA

Source: Business Registration Service

Corporate Social Investment

Sh6.3Bn

Amount of money banks invested on CSR activities between 2016 and 2018

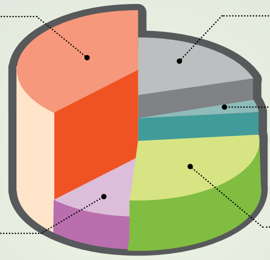
Capping Law Impact

1.4%

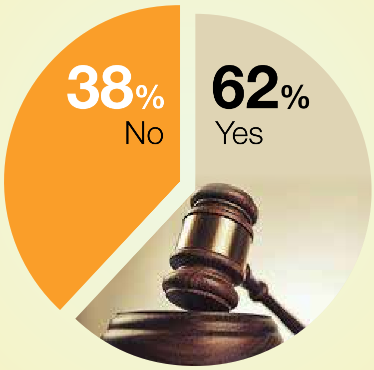
Decline in GDP:

Impact of Interest Rate Controls on the Banking Industry

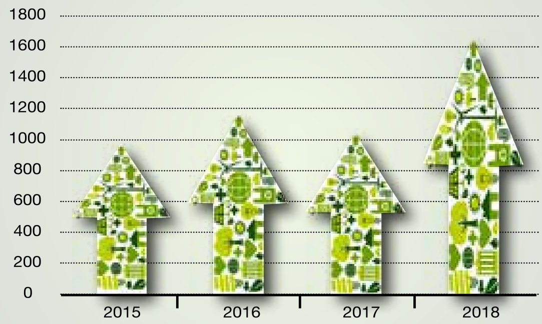
Snapshot of Banks' Marketing Spend in Key Areas in 2018 (MN)



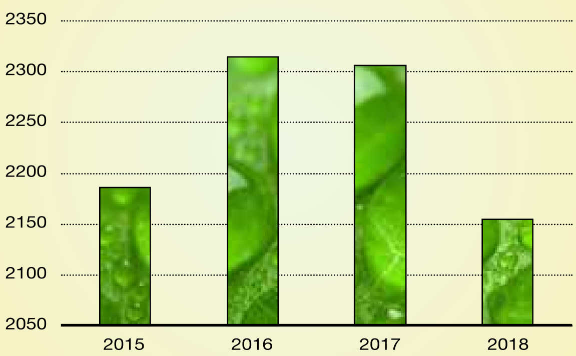
Has the Interest Rate Cap Reduced Bank Lending to SMEs?



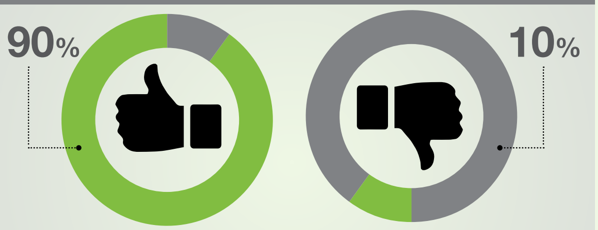
Banks' Cause Related Marketing 2015-2018



Banks CSR Spend 2015-2016 (In Millions)



Customer Service Delivery



In a survey of **6,000** customers, **90 percent** thought banks are improving service delivery

Source (All Info-graphics on this page): Kenya Bankers Association

SURVEY RESPONDENTS

- abc BANK
- BANK OF AFRICA — Groupe BMCE BANK
- Bank of Baroda
- Bank of India — Relationship beyond banking
- BARCLAYS
- cba
- Consolidated Bank — Growing with you
- Credit Bank — My Friend, My Bank
- CO-OP BANK
- DTB — DIAMOND TRUST BANK
- DIB Bank Kenya — A subsidiary of Dubai Islamic Bank PJSC
- Ecobank — The Pan African Bank
- Spire Bank
- EQUITY Bank • Your Listening, Caring Partner
- Family Bank — With you, for life
- Faulu — A Member of the OLDMUTUAL Group
- Guardian BANK — Your Preferred Bank
- First Community Bank — driven by ethics
- GTBank

GulfAfricanBank
Excellence. Trust. Together.

Habib Bank AG Zurich

HFC
Dreams Made Possible

I&M Bank LIMITED

Banks Care
HUDUMA ZA BENKI KWA JAMII

When Banks Do Good, Communities Do Better

KWFT Microfinance

KCB

MEB

M Oriental

National Bank
Bank on better

NIC BANK

Prime Bank
PUTTING YOU FIRST

Standard Chartered

Stanbic Bank
A member of Standard Bank Group

SBM bank

SidianBank
Own Tomorrow

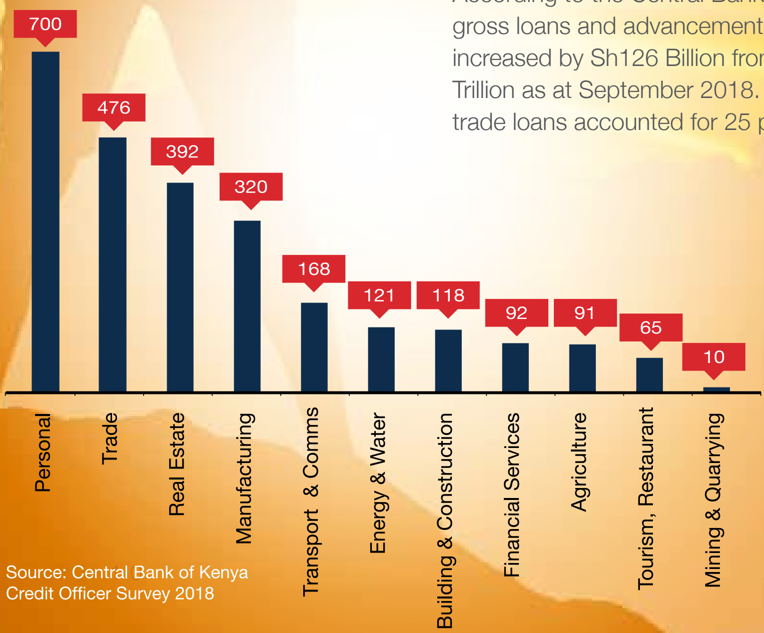
BANKS AND THE ECONOMY

Since the *2016 Kenya Banking Industry Shared Value Report* publication, the Kenyan economy has experienced significant developments. A protracted election cycle in 2017, tightened regulatory regime, technological disruption and drought have all worked to test the mettle of all sectors in East Africa's second largest economy.

Kenya's economy remained resilient despite the macroeconomic challenges, posting 4.9 percent and 6.3 percent Gross Domestic Product (GDP) growth in 2017 and 2018, respectively, according to the Kenya National Bureau of Statistics (KNBS). The financial services sector has been at the center (and often forefront) of these dynamics and the last three years have shed new light on the role Kenyan banks play in driving and shaping the country's growth.

According to the Central Bank of Kenya (CBK), the total value of outstanding gross loans and advancements banks made to households and private sector increased by Sh126 Billion from Sh2.36 Trillion recorded in June 2017, to Sh2.53 Trillion as at September 2018. Out of the loan portfolio, personal loans and trade loans accounted for 25 percent and 19 percent, respectively, with new

Fig 1a: Sectoral Distribution of Gross Loans 2018 (Ksh B)

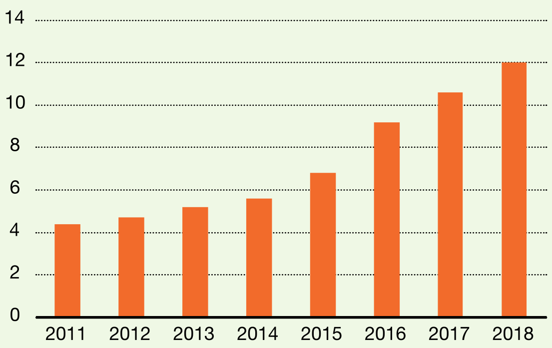


Source: Central Bank of Kenya Credit Officer Survey 2018

Sh2.53Tn

Total value of bank loans and advancements as at September 2018

Fig 1b: Gross Non-Performing Loans as Percentage of Total Portfolio (Ksh B)



loans to the various market segments standing at Sh30 Billion and Sh27 Billion, the bulk of which was advanced through mobile. Fig. 1a shows the distribution of loans banks have advanced to the various sectors and Fig. 1b covers the non-performing loans.

Kenyan banks have also lent out a cumulative Sh480 Billion to the National Treasury over the last three years to fund development and Government's recurrent expenditure, excluding financing made directly to County Governments and forward lending through development finance institutions (DFIs), representing the largest cash injection from commercial banks in recent times.

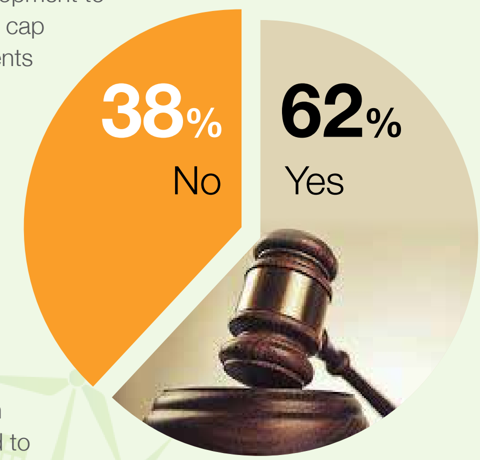
Nevertheless, the period also saw Members of Parliament pass the Banking (Amendment) Act, 2016, introducing interest rate controls that had a chilling effect on the growth of credit. An assessment by the Central Bank of Kenya found that the rate caps reduced lending to Micro, Small and Medium-sized Enterprises (MSMEs) and consequently contributed to a 1.4 percent decline in the growth of GDP in 2017.

Prior to the caps, the Kenya Bankers Association found that the SME portfolio was growing at a

rate of 15 percent per annum, which reduced to 6 percent by September 2016. Bank lending to SMEs fell by as much as 5.7 percent or Sh13.8 Billion between August 2016 and April 2017. At that rate, KBA estimates more than Sh40 Billion has been redirected from enterprise development to Government debt since the rate cap law was enacted. Fig. 2 represents banks' view of the effect of the rate cap.

Due to the challenging operating environment, businesses and households have struggled. As such, gross non-performing loans have recorded a sharp rise from 6.8 percent in 2015 to 12.4 percent in 2018 – although part of the rise can be attributed to new reporting requirements under the International Financial Reporting Standard (IFRS) 9 implemented by banks during the period under review.

Fig 2: Has the Interest Rate Cap Reduced Bank Lending to SMEs?



Job Creation and National Development

The growth of mobile lending and advancements in financial technology (FinTech) has also dramatically reshaped traditional business models and pushed service providers into uncharted territory where the primary currency is innovation. Kenyan banks, thus, continue to evolve with the times and the role of the financial services sector in oiling the cogs of the economy remains vital.

Commercial banks in Kenya have further been instrumental in boosting the Government's revenue basket, contributing Sh70 Billion and Sh73 Billion in taxes during the 2016/2017 and 2017/2018 financial years, respectively.

Banks have also remained crucial in job creation and adding value to the labour market. In the 2017/2018 financial year, commercial banks spent Sh39 Billion on staff costs including wages and benefits for the more than 30 thousand people employed in the sector. While technology has seen realignments in many organisations that saw the number of employees fall by 2,792 between 2016 and 2017, staff productivity and service delivery has improved. On average, one employee was serving 1,227 customers in 2016. The same employee is now serving more than 1,544 customers as a result of increased efficiency from technology.

Furthermore, banks also improved salaries and remuneration of their personnel. Data from the CBK indicates salaries and wages as a ratio of banks' income increased to 18.6 percent in 2017 from 16.9 percent in 2016. Working relations between financial service providers and their staff also improved. Collective Bargaining Agreements (CBAs) have been constructive in averting industrial action in the sector. The last strike by bank workers was experienced in 1998. Such a track record of peaceful negotiations underscores the commendable engagement practices between the industry through KBA and labour unions.

Sh143Bn
Total tax revenue banks contributed to Kenya Revenue Authority in 2016/17 and 2017/18

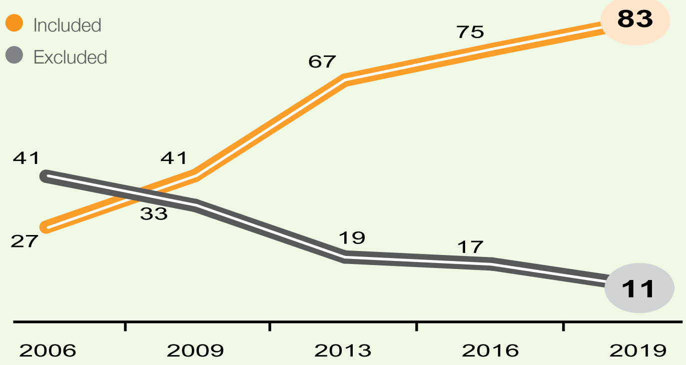
SHARED VALUE THROUGH FINANCIAL INCLUSION AND ENTERPRISE DEVELOPMENT

For Kenya to realise its Vision 2030 ambition of becoming an industrialized, middle-income economy, collective efforts must aim to create an enabling environment for the key actors of our economy — households and small enterprises — to thrive.

While mobile money transfer and lending have facilitated more peer-to-peer, business-to-business, customer-to-business and citizen-to-Government transactions, financial inclusion and universal access to formal financial services remains the industry's rallying call as cash is still king.

Many living in the rural areas, including youth, women and people with disabilities continue to be under-represented in the prudentially regulated financial services ecosystem due to their preference for informal and social systems. Yet gender disparity is narrowing; according to the 2019 FinAccess Household Survey, the number of men with access to financial services in Kenya in 2019 stood at 86 percent against 80 percent for women. The trend marks an improvement of 3 percent since 2016. **Fig. 3** represents the trend of financial inclusion in Kenya.

Fig 3: Financial Inclusion Trends as Percentage of Population (FinAccess)



Source: FinAccess Household Survey 2019

CASE STUDY

Gulf African Bank Annisaa Biashara

In 2012, Gulf African Bank launched a suite of products reserved for women. Annisaa Biashara Financing is Sharia compliant and as such does not have ledger fees or interest rates. The initiative has since morphed into a dedicated arm of the bank with the first women-only bank branches in East Africa personalized to the needs of women entrepreneurs. Annisaa recently introduced a comprehensive insurance feature to enhance the product offering. Gulf African is just one of the many banking institutions that have structured products and services aimed at lowering the barriers to finance faced by underserved market segments.

GulfAfricanBank
Excellence. Trust. Together.

Overall, the 2019 FinAccess Household Survey indicates that access to formal financial services increased from 75.3 percent in 2016 to 82.9 percent in 2019, while the percentage of the population excluded went down from 17.4 percent to 11 percent over the same period. The positive trend has largely been attributed to mobile banking offered by banks in partnership with mobile network operators (MNOs), application programming interfaces (APIs) and the integration of the two through platforms such as PesaLink launched in 2017 by KBA's subsidiary Integrated Payments Services Ltd. (IPSL).

82%
Percentage of Kenyans with access to formal financial services

CASE STUDY

Citi Banks on Smart Dukas

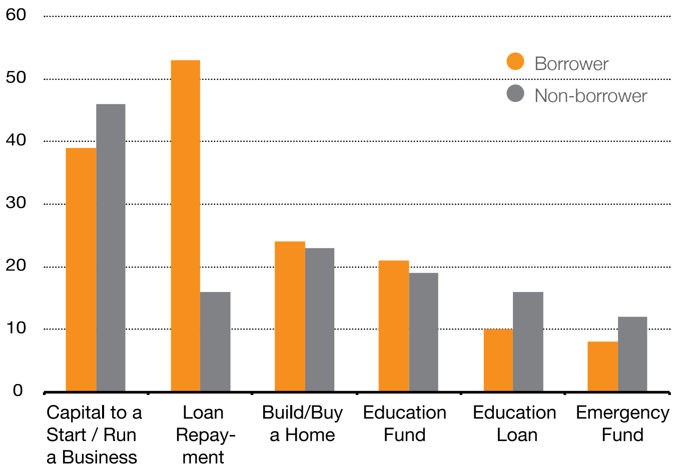
More than 1,000 kiosk owners received business and financial management assistance through a program supported by Citibank, TechnoServe, Moody's Foundation, MasterCard Center for Inclusive Growth and Elea Foundation. The partners have come together to equip the business owners with necessary skills such as merchandising, financial planning and supplier management. In addition, the partners are exploring ways to further support the micro entrepreneurs through digital payments and technology-enabled inventory management and customer relationship management.

Based on the progress so far, Kenya will certainly achieve universal access to formal financial services in the next three to four years. The untold story of Kenya's financial inclusion success story is how banks have underpinned the growth of mobile banking which has had a transcendent impact on deepening the country's financial services sector.

Supporting Small Businesses

Turning to enterprise development, the role that Micro, Small and Medium-sized Enterprises (MSMEs) play in the economy is now fully appreciated. There are approximately 7 million MSMEs of which more than 80 percent are informal and unlicensed. These businesses contribute to the employment of more than 13 million Kenyans and make up 28 percent of the national GDP. A 2014 KBA survey on the credit needs of MSMEs found that while these businesses form the driving force of the economy, many find it difficult to not only access finance, but also get through the operational hurdles that see

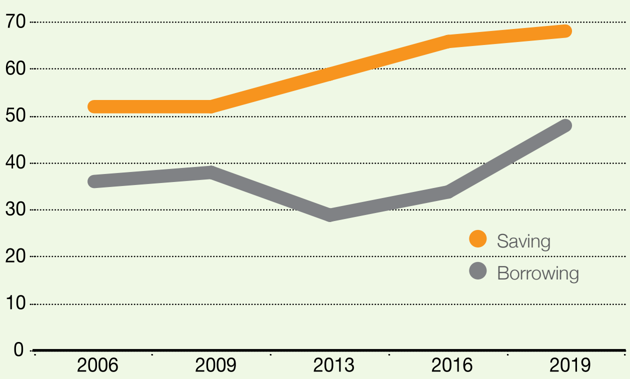
Fig 4a: Customers' Financial Goals



Source: Kenya Bankers Association National Survey (2017)

80 percent of startups fold within their first year. The high rate of business insolvency is indeed a concern for financiers and the Government which relies on small enterprises to ensure sustainable economic development. Fig. 4a and 4b Illustrate bank customers' demand for credit and savings patterns.

Fig 4b: Saving and Borrowing Rates 2006-2019 (% of adult population)



Source: FinAccess Household Survey

The study further revealed widespread demand among MSMEs for financial literacy, management skills, strategic planning to scale operations, and compliance with legal and regulatory requirements. To fill the capacity gap, KBA in October 2018 launched the Inuka Enterprise Programme. Together with the Kenya Institute of Management (KIM), Kenya National Chamber of Commerce and Industry (KNCCI), and the Kenya Association of Manufacturers (KAM), Inuka facilitates access to finance through training, networking and coaching opportunities.

To fortify these efforts, KBA has established an online platform (inukasme.co.ke) where entrepreneurs access valuable information on how to overcome challenges that may cripple their startups and small businesses. Visitors to the platform get free access to important knowledge, including practical case studies ranging from how to

CASE STUDY

KCB 2JIAJIRI

KCB Group launched an ambitious Sh50 billion enterprise development programme geared towards birthing a new cadre of youthful entrepreneurs within the informal sector to ease the country's unemployment crisis. The programme dubbed "2JIAJIRI" is expected to benefit at least 500,000 entrepreneurs in five years, thereby creating job opportunities for millions of Kenyans. The main program objective is to provide the beneficiaries with vocational and enterprise development skills necessary to drive employment and wealth creation in selected sectors such agricultural enterprise, automotive engineering, construction, beauty and domestic services. The programme targets both existing (70%) and potential entrepreneurs (30%).

> "I feel privileged to have gone through the Y-Bizna Programme. I am now a different person. I learnt how to keep up-to-date business records and to plan ahead. I was also guided on how to obtain a bank loan."
>
> – Kevin Uduny, Urban Farmer

increase crop yields, and rebuilding one's business after a failed attempt, to marketing through cost effective channels such as social media. Complementing the online program are face-to-face training sessions sponsored by KBA member banks.

In just a few months, the Inuka Programme has reached more than 1,400 MSMEs, including budding entrepreneurs in Nairobi, Nakuru, Kisumu, Homa Bay, Turkana, Marsabit, Wajir, West Pokot, Kiambu, Meru, Kisii, Mombasa, Tana River and other locations across Kenya. The goal is to reach thousands more in the coming months.

Alongside the Inuka Enterprise Programme, KBA launched the Y-Bizna (Youth in Business) initiative in 2017 in partnership with the Kenya Community Development Foundation (KCDF). The programme targeted 300 vulnerable young men living and working in informal settlements in Nairobi and Mombasa. The Y-Bizna implementing partners were Youth, Arts, Development and Entrepreneurship Network in Nairobi and the Dream Achievers Youth Organisation in Mombasa. Y-Bizna engaged young men from Mathare, Huruma and Kariobangi in Nairobi and Kisauni in Mombasa to counter effects of radicalization and crime attributed to high levels of unemployment in slum communities. KBA set aside a Sh1 Million fund that provided the young men interest-free loans to start or scale up their micro-businesses. Supported by the banking industry, the Y-Bizna youth are now active participants in the formal economy. Y-Bizna was a pilot project that will inform how banks can contribute to youth employment creation.

SHARED VALUE THROUGH TECHNOLOGY TRANSFER

KBA constantly works to remain alive to the changing technological landscape and how it impacts on members' business and customer experience. Evolving technology in the financial services sector affects all players and as an umbrella group, KBA's mandate includes ensuring members are informed about new technology trends and how best to leverage technology to serve customers. This has been the case with recent pioneering solutions like PesaLink.

PesaLink facilitates the transfer of funds from one bank account to another within five seconds. A total of 30 banks representing more than 90 percent of active bank accounts in Kenya have so far been integrated into the platform, which facilitates transfers 24 hours a day and seven days a week, including public holidays. The daily values that can be moved via mobile and online banking range from Sh100 to Sh999,999 per transaction, giving customers unrivalled flexibility.

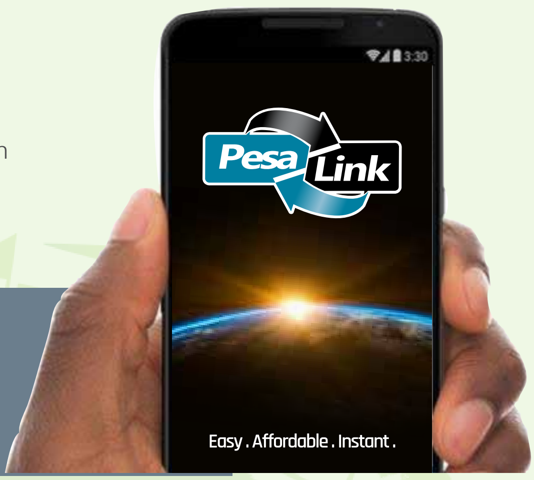
To date, more than Sh81 Billion has been moved through the payments switch since it was launched by KBA in 2017. Following the successful debut of PesaLink, the industry is now working to scale implementation and ensure applications are standardized throughout the banking network.

In 2019, PesaLink was plugged into the eCitizen platform, enabling the public to make real-time payments for public services such as renewing driving licenses, passports and business registration.

SMEs have extensively adopted PesaLink for payments. Merchants and retail owners running small businesses like cake shops and salons appreciate the fact that moving their money through PesaLink saves transaction costs incurred in trading with cash. Schools are also adopting the service for fee payments and salary check-offs. The utility of PesaLink for small business owners is that they can create transaction records of micro payments, and the data used to obtain credit facilities from financial service providers.

Sh 81 Bn

The amount of money transacted through the industry's PesaLink solution



> "KBA's mandate includes ensuring banks are informed about new technology trends and how best to leverage technology to serve customers

In a survey of 6,000 customers, 90 percent thought banks improved service delivery

Other ways that the industry creates value within the National Payments System is the work KBA does in collaboration with the Central Bank of Kenya. KBA successfully completed upgrades to the Automated Clearing House (ACH), a high-tech system used by commercial banks to exchange payment files and facilitate the transfer of value between bank customers and commercial clients. The upgrade has facilitated inclusion of remitter details on all payment files, enabling banks to immediately identify the payee or remitter of a payment instrument and shortening turnaround times while mitigating disputed transactions and fraud.

CASE STUDY

Bank on Wheels

In 2018, Prime Bank launched Bank on Wheels, an initiative that functions as a mini branch, enabling customers to make cash deposits and withdrawals, deposit cheques and conduct account enquiries from a specially designed truck. The vehicle moves from one client to the next and is even equipped with an ATM machine allowing Prime Bank clients such as retail outlets gain access to services right at their doorsteps. Bank on Wheels is just one of the examples of how banking institutions leverage on technology to reduce operational costs and improve service delivery.

Prime Bank
PUTTING YOU FIRST

Upgrades to the ACH carried out by KBA and CBK in 2018 have also made processing of foreign currency cheques more seamless. Foreign currency cheques previously cleared on a seven-work day cycle. The turnaround time has now been reduced by five days to T+2 or two days after the cheque is presented in the ACH.

Beyond the ACH, cyber-security and fraud prevention remain at the forefront of the conversation in the midst of rapid technological adoption. As the financial system becomes more digitized in tandem with global trends, there is a need to constantly update security systems to ward off sophisticated fraudsters. KBA is working with members to review best practice in identifying fraud, assessing the impact and escalating the information across the industry while tightening response times. The industry approach to security entails constantly raising the bar to ensure all KBA member banks remain protected, in turn safeguarding clients' data and monies.

Technology-Enhanced Service

Increasingly, banks are leveraging on technology to enhance the user experience. The industry's investments in technology-driven service delivery has not been lost on customers, who recognize that member banks have improved their services. In a survey of 6,000 customers undertaken by KBA between September and November 2018, approximately 90 percent of respondents acknowledged industry efforts, which is a strong vote of confidence that the industry is on the right track.

The Customer Service Survey also suggested that a substantial percentage of bank customers prefer mobile banking channels (49 percent). The rest of the sample had 16 percent of respondents preferring Internet banking, and 5 percent being inclined to ATM transactions. The results indicate the bearing of disruptive financial technology on the expectations of customers, who now prefer an enhanced digital experience for convenience, relative to the conventional brick and mortar model. Further, a preference shift to digital platforms is being espoused especially by the younger generation, particularly those between 26-35 years. In line with the shift in preference, the banking industry has aligned itself to technology across banking channels.

CASE STUDY

LEO the UBA Virtual Banker

UBA became the first bank in Africa to introduce service delivery powered by artificial intelligence. Through LEO, a virtual banker, customers can use Facebook Messenger and WhatsApp to open accounts, check account balances, make transfers, buy airtime, and much more. Featured by FaceBook CEO Mark Zuckerberg, LEO is the first generation of fully automated banking that demonstrates the potential of social media integration. Consistent with the bank's customer-first philosophy, UBA has designed an unconventional user experience anchored on user lifestyle preferences. Chatbots and virtual banking are increasingly being used by banks to connect with their customers and remain relevant in the Social Age.

DTB 'CEO on Duty'

Every year, the banking industry observes Customer Service Week, a time when service providers appreciate customers for their patronage. DTB has celebrated the Week for several years, taking the opportunity to build customer loyalty and reward staff who go above and beyond to support the bank's clients. DTB's vision and strategy inculcates a culture of excellence and providing the customer with the best service using technology. From Kenya to Uganda, Tanzania and Burundi, the bank staff led by their CEO spend the week hearing first hand from customers how the bank can improve its products and the user experience. In an initiative dubbed "CEO on Duty," the bank's Group CEO Mrs. Nasim Devji spends the week undertaking roles ranging from contact center call agent to branch staff.

DTB DIAMOND TRUST BANK

BUILDING A REGULATORY ENVIRONMENT BASED ON TRUST

Market regulations often evolve one step behind market realities, including in the financial services sector. Banks constantly adopt new ways of doing business alongside the evolving marketplace. KBA works to ensure member banks, clients and regulators remain alive to the opportunities and risks that may arise from rapid innovation in the sector.

Government regulators have on their part been quite responsive to the needs of the industry, facilitating the development of transformational legislations such as the Movable Property Security Rights Act, 2017. The Act is aimed at enabling banks lend to individuals and SMEs who have assets that are not land related, such as household goods, livestock and even the stock in their premises.

Borrowers register their collateral at the eCitizen online platform, where the first registry of its kind in East Africa was recently set up. The bank uses the collateral registry to determine the risk profile and subsequent facility for which the client qualifies. The registry is a departure from the tradition of using immovable assets – primarily land and buildings – that are beyond the reach of most Kenyans.

The Movable Property Security Rights Act, 2017 is aimed at enabling banks lend to individuals and SMEs with assets such as household goods, livestock and unsold stock

The Act also accommodates individuals working in the creative industry who can value their assets and obtain facilities against them. For example, a musician can demonstrate to a bank that they have performance contracts lined up and is thus assured of cash flow to enable them to service the facility they seek.

In a report by Financial Sector Deepening, as of the end of January 2019 there were 183,487 loans registered on the Moveable Assets Registry worth Sh 3.65 trillion (USD 36.5 billion) and more than 13,000 searches were conducted since the launch of the registry in May 2017. The diversity of assets registered on the eCitizen platform demonstrate the immense potential of this innovative system which is sure to transform how Kenyans borrow. Fig. 5 illustrates the moveable asset types and main participating banks in the registry. It is worth noting that non-bank lenders are also utilizing the registry to extend credit to individuals and enterprises.

There are numerous emerging legislations that the industry is currently engaged in to improve the banking system and make it easier and cheaper for bank customers. Other policy engagements focus on mitigating systemic risks that undermine industry development and innovation. For example, KBA is also working with its member banks to ensure effective implementation of legislation to combat illicit finance as a member of National Treasury's taskforce on anti-money laundering and countering the financing of terrorism.

The industry's proactive self-regulation efforts are an important development, especially for such critical issues as cybersecurity, and countering money laundering and illicit finance

As the most regulated sector of the country's economy, banks are keen to build trust through self-regulation in adhering to international best practice standards and constant engagement with regulators. The industry's proactive self-regulation efforts are an important development, especially for such critical issues as cybersecurity, and countering money laundering and illicit finance.

Fig 5: Moveable Assets Collateral Types and Top Participating Banks

	Types of collateral registered (No & % of entries, May 2017 - Latest)	Average number of collateral per loan (% of entries, May 2017 - Latest)	Top user for each collateral category
Household items	198.873	4.1	KCB, KWFT, Equity, Co-operative Bank
Motor vehicle	86,010	1.4	NIC, Equity, KCB, CBA, Platimum Credit
Furniture	84,626	3.1	KWFT, KCB, Equity
Equipment	71,396	6.7	KWFT, KCB, Equity
Livestock	27,785	1.8	Equity, KCB
Stock trade	25,000	9.9	Equity
Inventory	19,010	26.7	Equity
Others	16,883	5.5	Equity
Bank Accounts	6,409	1.9	Equity, I&M, Standard Chartered
Immovable property	5,262	1.5	I&M, Equity
Securities	4,207	1.3	KCB
Acquired property	3,226	1.7	I&M, KCB, BOA
Crops	2,013	3.8	Equity, Juhudi Kilimo
Documents title	479	1.5	I&M
Consumer goods	455	4.7	Equity, Co-operative Bank
Intellectual property	364	2.5	Unaitas, Individuals
Negotiable instruments	97	1.7	CBA

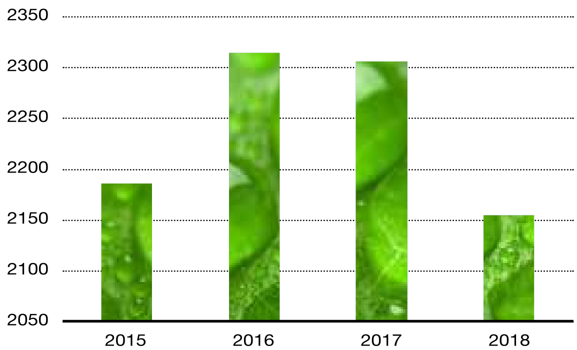
Source: Business Registration Service

SUSTAINABLE FINANCE AND CORPORATE SOCIAL INVESTMENT, CSI

Kenyan banks have made a significant contribution to Kenya's realisation of the Sustainable Development Goals (SDGs) through their financing, as well as, deploying their marketing and corporate social responsibility budgets.

In 2017, commercial banks invested a cumulative Sh2.3 Billion in corporate social responsibility and Sh2.1 Billion in 2018. The investment follows the Sh1.9 Billion that was endowed in 2016. In addition, direct support for various initiatives was realized through marketing and sponsorships with the cumulative industry cause-related marketing standing at Sh1.7 Billion in 2018, up from Sh1 Billion in 2017. Fig. 6 represents the cumulative CSR spend of commercial banks in Kenya over the past four years.

Fig 6: Banks CSR Spend 2015-2016 (In Millions)



Source: Kenya Bankers Association

Translating the impact of the banking industry's CSI activities is immeasurable considering the ripple effect of each investment, especially in the areas of education, health and the environment. As much as banks are certainly a force for good in the community, the question is how the industry can sustainably contribute to alleviating the complex and systemic challenges facing society. Sustainable Finance,

CASE STUDY

Equity Gives Youth Wings to Fly

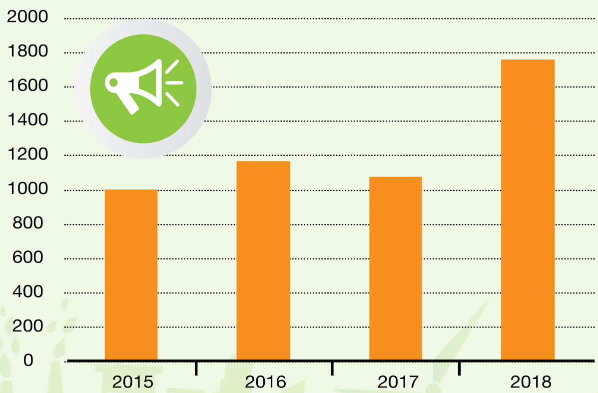
Equity Bank Foundation launched the Wings to Fly programme in 2011 with support from the MasterCard Foundation. The initial goal was to award 10,000 comprehensive secondary school scholarships and leadership training to academically-gifted and socially-marginalized young Kenyans. The programme has since surpassed its target, dispensing 16,168 scholarships so far. The potential scholars who rank in the top 5th percentile in the Kenya Certificate of Primary Education are identified and selected by community District Scholarship Selection Boards chaired by District Education Officers under the supervision of respective Equity Bank branch managers. Wings to Fly is one many examples of the important role Kenyan banks play in extending education and mentorship opportunities to those who need it most.

therefore, becomes an essential practice that entails banks providing financing while considering the economic, social and ecological impacts to the markets in which they operate. Fig. 7 represents a snapshot of the cause-related marketing spend by commercial banks in Kenya over the past four years.

It is no longer sufficient for corporations to exist solely for profits. Financial interventions today need to factor in social and environmental concerns facing society, especially with emerging research pointing to the devastating impacts of climate change on the real economy. Banks are now keen to ensure the utilization of the funds they provide will not destroy the environment and will have a positive impact on social cohesion while reducing inequality.

Sustainable finance is a departure from traditional CSR as it is linked to the banks' core business and not a one-off activity. As such, aligning to the Sustainable Development Goals is a guiding principle through which banks and development finance institutions are collaborating. To enhance the banks' ability

Fig 7: Banks' Cause Related Marketing 2015-2018



Source: Kenya Bankers Association

Sh6.3Bn

Banks investment in CSR activities between 2016 and 2018

Co-Op Proves There's Green in Green

Co-Operative Bank has been recognized by KBA for its leadership in green finance. The bank has undertaken several financing investments in the fields of energy efficiency and renewable energy worth in excess of USD50 Million. These include financing of a mini-hydro power plant, Strathmore University's 600-kilowatt solar roof, and Meru Central Dairy Cooperative Union processing activities. These investments have reduced operating costs, increased the processing capacity and reduced production losses for Co-Op Bank's clients.

to deploy sustainability strategies, KBA has invested in a comprehensive capacity building strategy. With technical assistance and funding support from the FMO – Dutch Development Bank and DEG – German Investment Corporation, KBA rolled out the Sustainable Finance Initiative (SFI) e-learning course in 2017. Approximately 29,000 bank employees have so far been engaged through the SFI training program.

KBA also sponsors the annual Catalyst Awards that recognizes banks which have demonstrated leadership in implementing the SFI principles. In 2018, several banks including Cooperative Bank of Kenya, Diamond Trust Bank, Equity Bank, KCB Group, Standard Chartered, and the Kenya Women Microfinance Bank were recognized for their contribution in championing SFI principles in Kenya's financial services sector.

Banks also led initiatives to roll out the Green Bond Program - Kenya that has introduced the innovative fixed income asset to raise capital for green economy investments. The program is supported by KBA, Nairobi Securities Exchange, Climate Bonds Initiative, Financial Sector Deepening Africa and FMO. The program, which has been endorsed by National Treasury, CBK and Capital Markets Authority, also receives technical assistance from IFC and WWF and is actively supporting potential green bond issuers, including the Government of Kenya.

Currently, the world is characterized by existential challenges such as global warming and social discontent. Sustainable finance brings the promise of sustainable profits by building relationships with mutual benefit to the institution, society and environment. In Kenya, there is a burgeoning cluster of responsible lenders that have tapped capital from equity partnerships and subordinated debt or lines of credit to deliver the ultimate win-win scenario for banks, the economy and society. With these positive developments, the country's realization of its green economy strategy is assured.

OUTLOOK

Amidst rapid technological disruption and a dynamic regulatory and operating environment, the financial services sector continues to explore innovative ways to lower the barriers to access while increasing relevance and creating positive change.

It is without question that banks play a central role in the economy and society. This report shares numerous ways of how the industry is creating shared value at the national and county levels. The challenge remains to harness the industry's potential to drive Kenya's sustainable economic development and realization of the Vision 2030.

Banks cannot maximise the sector's potential alone. An enabling policy environment is critical. Moreover, stakeholder engagement and partnerships is imperative as highlighted in the Sustainable Development Goals.

NIC Bank hosts students in a job shadow exercise to commemorate the Global Money Week.

ABC Bank staff present newspaper donations to The Cluster Foundation representatives, Tiffany Mwangi (right) and George Nderitu (second left).

Donation of a water tank and water point to Muchakai Primary School in Gatundu North Constituency by Consolidated Bank head office staff led by the Chief Commercial Officer, Mr. Japheth Kisilu.

GTBank staff hosted its annual Christmas party at the Nairobi Hospice. During the event, the staff engaged in cooking for the patients and their family. The bank donated Sh 148,000 that went towards the food and drinks for the event and gift packs for the patients.

A participant shares insights during a workshop convened by Co-op Bank Foundation's Jijali Programme.

Ecobank Kenya, Head of Operations and Technology, Mr. Didier Yobou donates to the Director of Songa Mbele Children's Centre, Sister Mary Kleen.

Credit Bank team joined African Guarantee Fund in commemorating The International Day of Climate Action. The tree planting took place at the Kereita Forest in Lari District, Kiambu County.

Guardian Bank staff donated food to the Mother Theresa Home in Otiende.

Ecobank Kenya MD and Regional Executive, Mr. Sam Adjei helps the Chairperson of the Green Belt Movement, Ms. Marion Kamau water an indigenous tree.

DTB Bank General Manager of Corporate Banking, Ms. Shahzad Karim together with the Bank's driver, Mr. Oliver Andega pose with children after participating in a tree planting exercise in Narok.

President Uhuru Kenyatta visiting the KCB Foundation/Gearbox stand at the '2jiajiri City'during the 2018 2jiajiri graduation ceremony at the Moi International Sports Centre Kasarani. The Foundation is supporting the training of out-of-school youth and business owners at Gearbox on various aspects of manufacturing and entrepreneurship.

Education CS Prof. George Magoha interacts with Wings to Fly scholars at Equity Group Foundation's 10th Annual Leadership Congress. 3,570 students under the Wings to Fly programme were gathered at Kenyatta University for a weeklong mentorship session where they were trained on life skills by role models drawn from various sectors.

ACKNOWLEDGEMENTS

Kenya Bankers Association is grateful to our various stakeholders and partner institutions who continue to collaborate with KBA on numerous industry efforts that contribute to the growth of the sector and Kenya's sustainable economic development. This report would not have been possible without the support and commitment of KBA member banks' who were kind enough to share details on their activities. KBA is grateful to the regulator Central Bank of Kenya (CBK) as well as Kenya's statistics office Kenya National Bureau of Statistics (KNBS) for the valuable data that the two institutions publish. The Financial Sector Deepening (FSD), and Consultative Group to Assist the Poor (CGAP) were also an instrumental source of crucial data that went a long way in informing the report.

The report was prepared by Frankline Sunday and edited by Nuru Mugambi. Survey analysis was conducted by Josea Kiplang'at. Creative design services were provided by Conrad Karume.

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