



**KENYA BANKERS**  
**ASSOCIATION**

One Industry. Transforming Kenya.

# ***Banking Industry Development and Social Investment Report 2013***



As the country progresses towards attaining its national economic development goals as outlined in Vision 2030, the banking industry's contribution to Kenya's growth story will remain invaluable.

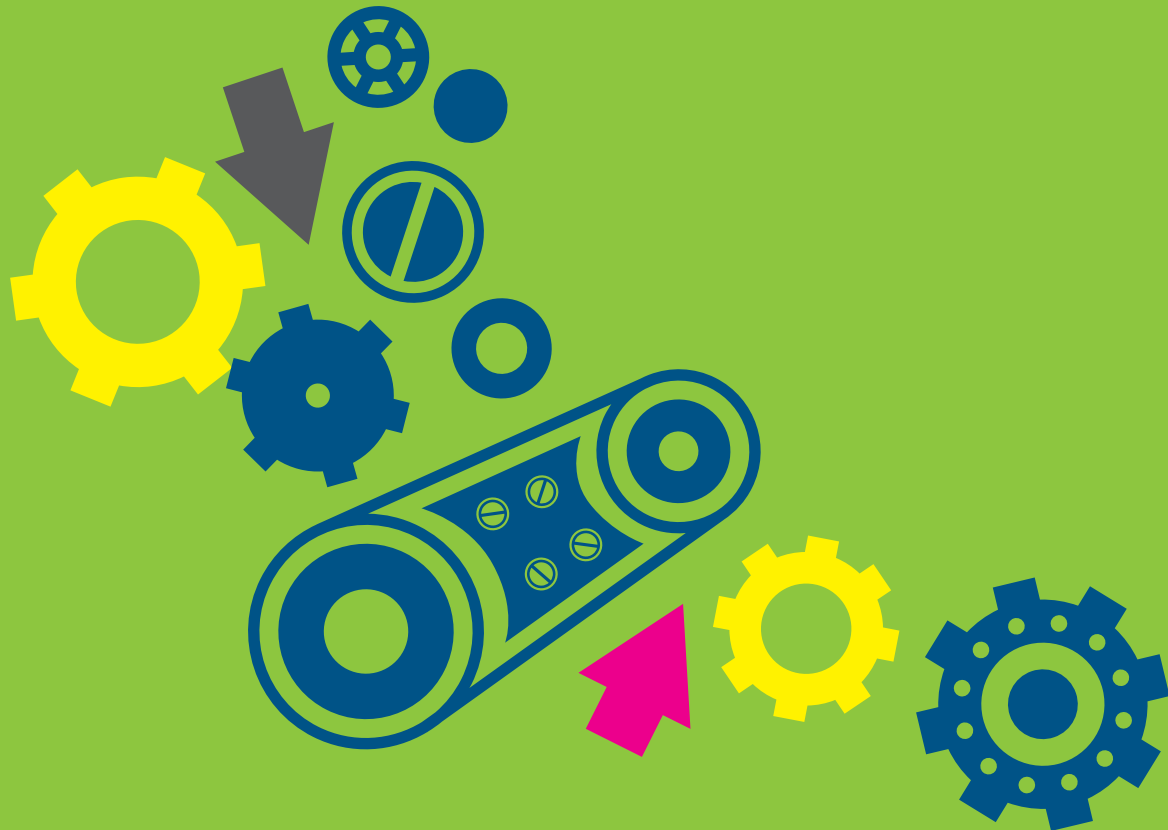
**Pictured on Cover (Top To Bottom):**

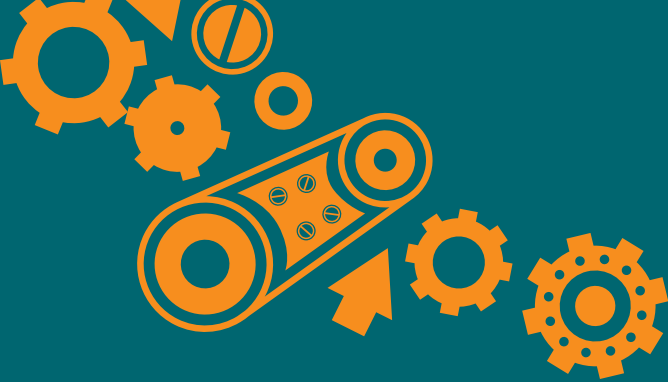
A Middle East Bank employee with a beneficiary of the Feed the Children program.

Housing Finance employees help construct homes for the homeless in Bungoma.

Fidelity Bank Changamwe Branch staff and area residents clean up the Makupa Causeway in Mombasa.

Bank of Africa took part in a project aimed at providing clean and safe drinking water for two communities in Impiro and Enyornyor sub-locations in Kajiado County.





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## CEO FOREWORD

### **Welcome to the First Edition of the “Banking Industry Development and Social Investment Report.”**

*As the umbrella body of the commercial banks licenced and regulated by the Central Bank of Kenya, with a current membership of 44 banks, Kenya Bankers Association (KBA) has endeavoured to reinforce a professional and productive banking industry in a bid to best support the Kenyans who entrust their ambitions with the KBA member banks.*

*We have outlined in this Report how banks contribute to numerous positive developments within the financial services sector. Through their intermediation role, banks increasingly channel resources towards various sectors that drive sustainable economic development, including Small and Medium Sized Enterprises (SMEs) that operate across Kenya’s key sectors of trade, manufacturing, agri-business and food processing, transportation, construction and tourism (see Page 14).*

*In addition to directly enhancing the country’s productive capacity, by operating profitably banks significantly contribute to the Government’s domestic revenue. The industry serves as one of the highest tax contributors, and in 2013 contributed approximately Ksh. 37 billion in corporate taxes alone (see Page 11). When you factor in other taxes, including payroll*

*taxes, the banking industry’s contribution to the Government’s tax revenue is much higher.*

*Aside from supporting Kenya’s development goals by generating revenue to fund the National Budget, banks through diverse community investment strategies annually invest Ksh. 1.4 billion in various community organisations which implement projects across the country (see Page 22).*

*The Survey which informed the basis of this report was undertaken during the First of Quarter 2014. Allow me to take this opportunity to thank the KBA member banks that participated by providing their information. We have incorporated several of the examples and photos that were shared; however, we recognise that there are many other stories that we possibly did not capture and which we encourage the banks to promote to their stakeholders and the public at large through their various communications channels.*

*A copy of this report can be accessed at [www.kba.co.ke](http://www.kba.co.ke). I hope that it will provide insights to what the banking industry is able to do so as to meet the country’s developmental aspirations.*

*We look forward to the future publishing of more comprehensive editions to provide our industry stakeholders with a glimpse of the numerous ways banks make a difference, every day.*

*Signed,  
Habil Olaka  
Chief Executive Officer  
Kenya Bankers Association*

# ABOUT THIS REPORT

*This is the inaugural Banking Industry Development and Social Investment Report. The report draws from a survey that was conducted during the First Quarter of 2014 amongst the members of the Kenya Bankers Association.*

*The Survey instrument sought to establish the evolution of the banking industry's product offering, any recent innovations meant to address access and convenience of financial services provision, as well as determine the extent to which banks are serving clients with diverse requirements. In particular, the Survey was keen to establish whether banks are increasingly serving the small and medium-sized enterprises sector, which is proving to be an important driver of the economy's prosperity.*

*Further, the Survey explored mechanisms through which banks directly contribute to programs that have an immediate and long term impact on society.*

## Responding Banks

1. Victoria Commercial Bank Ltd.
2. Middle East Bank Kenya Ltd.
3. Housing Finance Company of Kenya Ltd.
4. Family Bank Ltd.
5. Jamii Bora Bank Ltd.
6. K-Rep Bank Ltd.
7. Giro Commercial Bank Ltd.
8. Credit Bank Ltd.
9. Equatorial Commercial Bank Ltd.
10. Prime Bank Ltd.
11. Bank of Africa Kenya Ltd.
12. CFC Stanbic Bank Ltd.
13. Habib Bank A.G. Zurich
14. Ecobank Ltd.
15. African Banking Corporation
16. UBA Kenya Bank Ltd.
17. National Bank of Kenya Ltd.
18. Guaranty Trust Bank (Kenya) Ltd.
19. Consolidated Bank of Kenya Ltd.
20. Standard Chartered Bank (K) Ltd.
21. NIC Bank Ltd.
22. Fidelity Commercial Bank Ltd.
23. Commercial Bank of Africa Ltd.
24. Co-operative Bank of Kenya Ltd.
25. Diamond Trust Bank Kenya Ltd.
26. Kenya Commercial Bank Ltd.
27. Equity Bank Ltd.
28. Citibank N.A.
29. Barclays Bank of Kenya Ltd.
30. Guardian Bank Ltd.

# Report Highlights

## Positive Industry Developments in 2013

### POSITIVE INDUSTRY GROWTH



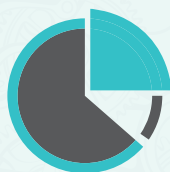
**Demand for credit across all sectors is being met by the industry:** Gross loans expanded by 17.65 percent in the year 2013, from Ksh1.36 trillion in Dec. 2012 to Ksh1.6 trillion in Dec. 2013



**Investors are staking more capital in banks:** Shareholder's funds increased by 18.91pct to Ksh431 billion in 2013



**Loan rates declined while deposits increased:** Interest income on loans fell by 3.57pct. Deposits grew by 12.5pct from Ksh1.76 trillion in Dec. 2012 to Ksh1.98 trillion in Dec. 2013



**Banks are top taxpayers:** Banks contributed 37 billion to the Government revenue pool through taxed profits

(Source: Central Bank Credit Survey, as at Dec. 2013)

### FINANCIAL SECTOR DEEPENING



#### Access to finance is a Kenya success story:

In 2013, 67pct of the adult population accessed formal financial services (higher than some markets like Egypt where the rate is at 10pct)



#### Countrywide use of banking services:

Use of traditional and agent banking has increased across all regions



#### Alternative channels & E-Money promote financial inclusion:

Use of mobile phones & internet banking to access formal financial services has spurred innovation and promoted financial inclusion

(Source: FinAccess 2013)

# 35%



Rate of growth of bank lending to SMEs over the last two years

# 95%



Proportion of banks that serve SME clients

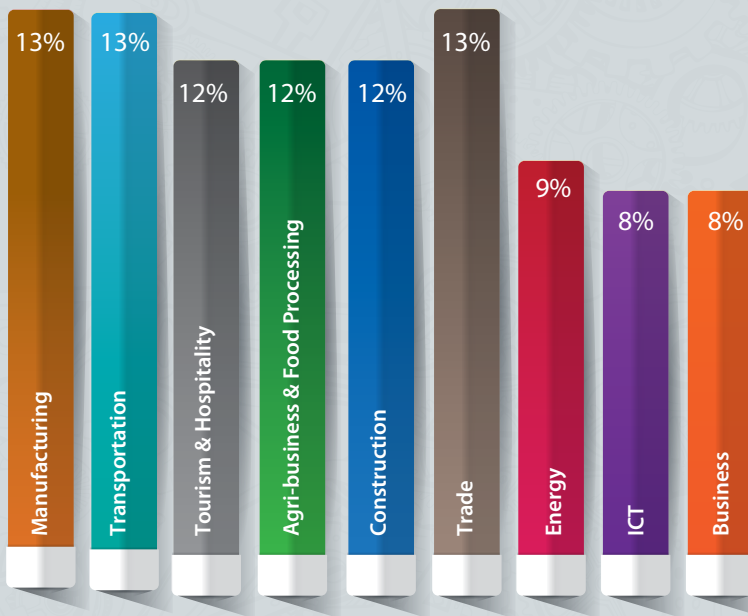
# 3-23



Range of products tailored to SMEs' that a bank typically would develop

## Banks and SMEs

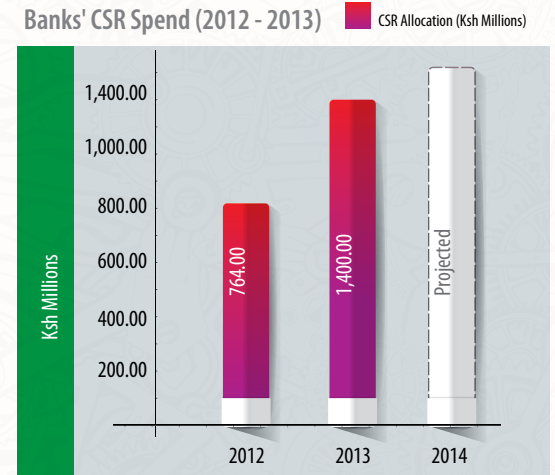
The banking industry's ability to shape Kenya's development aspirations is enhanced by initiatives targeting SMEs across various economic sectors



*Proportion of SME lending by economic sectors*

## Social & Environmental Impact

Banks in 2013 invested more than **Ksh. 1.4 billion** in community projects and initiatives (corporate social responsibility)



Banks typically funded Education, Health, Environmental and Financial Literacy Programs

### CSR Allocation to different areas







"We have tremendous potential as a Continent and we must work together, through private-public sector collaboration, to seize the moment for the long-term benefit of our nations and our people...It is the role of all the players, and particularly the banks, to leverage these advancements to become agents of sustainable growth and development."

- African Development Bank Group President, Dr. Donald Kaberuka during the Kenya Bankers Association 50th Anniversary celebration

**Kenya has been recognised as one of the most promising economies not only in the East Africa region but across the Continent. This is due to its market-based policies that enable growth of the various sectors, including financial services. In addition, the Government's progressive role of fostering public-private sector engagement has provided a conducive environment for dialogue towards collectively addressing the challenges that face enterprise development.**

It is against such a background that the banking industry has over the years collaborated with the Central Bank of Kenya (CBK) and National Treasury to put in place measures to support economic development while addressing concerns regarding financial services accessibility. This collaborative approach, which has been supported by an adequate policy and regulatory regime, has ensured stability and consequently growth in deposits, increased lending, and improved returns on investment.

### ***Stability and Growth***

In 2013, Kenya's banking industry recorded continued growth on the back of a stable operating environment. This growth was characterised by expansion of credit across several economic sectors, including Trade, Manufacturing, Agriculture, Transport and Communications. Household demand for credit was also met by banks with an increase in personal loans.

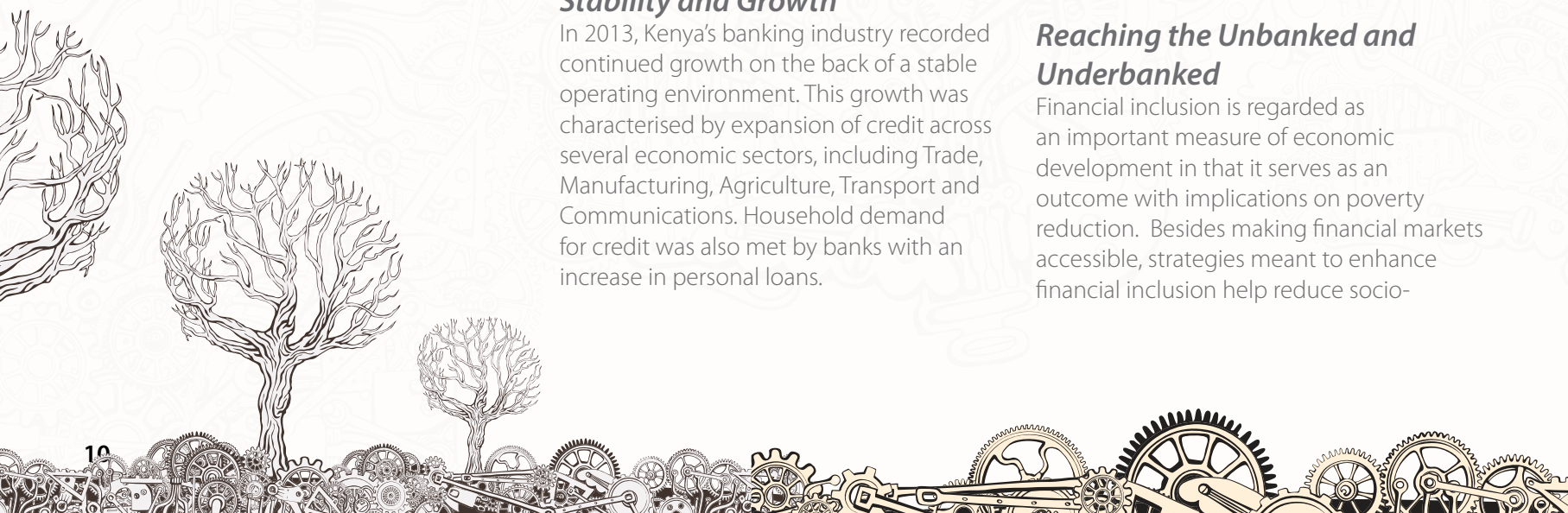
Gross loans from banks expanded from Ksh.1.36 trillion in December 2012 to Ksh.1.60 trillion in December 2013, according to the CBK Credit Officer Survey for the period January to December 2013. In the CBK Survey, it is noted that "the main factors that caused the demand for credit to increase (in 2013) were the drop in cost of borrowing and increase in available investment opportunities as a result of a stable macroeconomic environment."

During the year, banks also increased deposits by 12.5 per cent and attracted investments with shareholder funds increasing by 18.91 per cent to Ksh. 431 billion. These activities demonstrated the role banks played in creating income opportunities for depositors, and retail and institutional investors.

As the country progresses towards attaining its national economic development goals as outlined in Vision 2030, the banking industry's contribution to Kenya's growth story will remain invaluable.

### ***Reaching the Unbanked and Underbanked***

Financial inclusion is regarded as an important measure of economic development in that it serves as an outcome with implications on poverty reduction. Besides making financial markets accessible, strategies meant to enhance financial inclusion help reduce socio-



economic barriers, thus enabling the poor and unreached to save and access credit from formal financial services, including micro finance institutions and commercial banks.

Results of the FinAccess National Survey 2013 published by Financial Sector Deepening (FSD) and CBK indicate that formal financial service providers cater for 67 per cent of Kenya's adult population. This places the country amongst top performers with regards to financial access in Africa.

Currently, Kenya is ranked second behind South Africa in the proportion of citizens with access to financial services. This is a leap forward from the situation only a few years ago when only 24 per cent of Kenyans were served by financial institutions, according to the FinAccess National Survey 2006.

The rapid uptake of financial products has been driven largely by, among other factors, the mobile phone money transfer revolution led by M-Pesa, and the role banks have played in integrating mobile payment platforms into their service delivery models.

In addition, the agency banking model that was introduced in 2010 has gained significant traction, enabling many Kenyans to access banking services within a short distance from their homes or businesses. As at March 2014, 14 banks had adopted the agency banking model with the number of

active agents standing at 24,645. According to the CBK's annual Banking Supervision Reports (various issues), there have been more than 92 million transactions worth KSh. 498.8 billion carried out by bank agents since the inception of the agency banking model.

It is worth mentioning that beyond the convenience created by the agency banking model, the establishment of bank agents has proven to be a source of employment opportunity for many youth in rural areas.

### ***Tax Contribution***

Many of the contributions of the banking industry towards the country's prosperity have been highlighted above. They include promoting financial inclusion, enhanced financial intermediation, and employment creation.

Additionally, this Report singles out the banks' collective tax contribution to the Government's revenue as a key aspect of the industry's role in promoting economic development. Banks' contribution to the total Government revenue more than quadrupled from Ksh. 6.7 billion in 2006 to Ksh. 25.7 billion in 2011, according to figures from the CBK.

The CBK statistics also indicate that banks' current tax, as reported in their financial results as a proportion of the Government's total tax revenue, grew from 2.1 per cent in 2006 to 4.0 per cent in 2011.

Recent statistics indicate that the banking industry's pre-tax profits for 2013 increased by 16.9 per cent to Ksh. 124.6 billion from Ksh. 107.7 billion in 2012.

***Therefore, collectively banks contributed approximately Ksh. 37 billion in corporate taxes to Government revenue.***

Banks' contribution to Government revenue goes beyond corporate taxes. When factoring in the other taxes, including payroll taxes arising from the industry's 30 thousand workers, the banks' contribution to the Government's tax revenue is much higher.

To the extent that banks finance businesses that end up increasing their ability to pay taxes, both as enterprises and as employers, the banking industry is making a further contribution towards broadening Kenya's tax base.

Increasingly, banks have therefore emerged as key stakeholders that enable the progression of the national agenda.

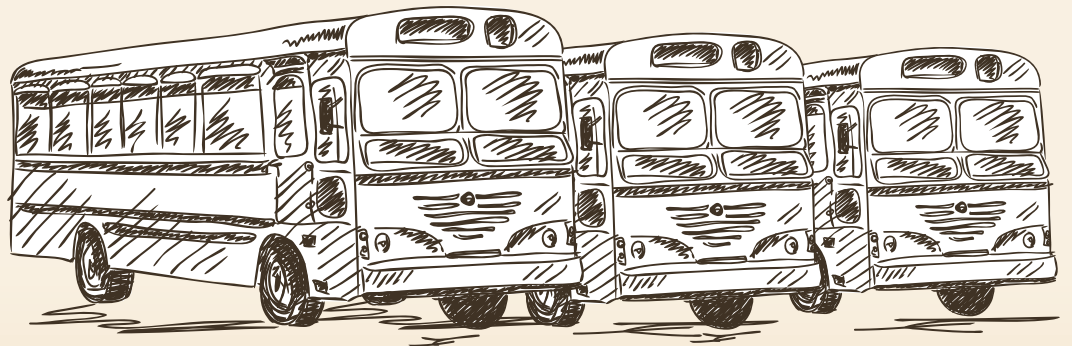




"Notably, every small business on average creates employment for approximately 10 people and for every job created there is a multiplier effect as the money spent from their income further stimulates economic activity in their local community."

- Ingrid Johnson, Nedbank Group

# *Writing the Next Chapter of Africa's Success Story*



In Kenya, more bank funding is being dedicated to businesses, with an industrywide increase in SME lending

**% Proportion of Total Lending Directed to SMEs**

Kenya	17.4
Rwanda	17
Tanzania	14
South Africa	8
Nigeria	5

Source: World Bank

**The Kenyan banking industry has proven to be innovative when it comes to financing Small and Medium-sized enterprises (SMEs). Although this may be a little-known fact, the industry's leadership has manifested itself in the increasing number of SMEs that are now able to access funding from commercial banks.**

Unlike banks in other parts of the world, including the most developed markets like the United States or the United Kingdom, banks in Kenya do not shy away from supporting SMEs; in fact, they actively compete to channel investments towards growing these businesses.

A recent report by the World Bank illustrates some of the areas that banks are involved in as they finance SMEs; this financial support cuts across all sectors. The report also noted that banks in Kenya are well ahead of their peers in other African markets, including South Africa and Nigeria which have relatively well established financial sectors.

Even in economies where a large proportion of entities are small and medium-sized companies which are expected to draw funding from banks, the extent of credit access for such enterprises is favourably comparable to that of Kenya. This is notwithstanding the fact that Kenya has a fair share of relatively larger corporate entities than those economies. Examples are Rwanda and Tanzania – two economies that come close to Kenya in regards to the proportion of total lending that is directed to SMEs.

## **Promoting Enterprise Growth**

The KBA Survey found that more bank funding is being dedicated to businesses, with an industrywide increase in SME lending of about 35 per cent between 2010 and 2012.

Increasingly, banks are shaping their business portfolios around the needs of SME clients. In several cases, the Survey noted an increase in SME lending of about 50 per cent, over two years; and in one extreme case, a bank increased its lending by a high of 154 per cent between 2010 and 2012.

With increased activity targeting this segment, banks are continually developing unique solutions, including structured financing, cash management consulting, innovative savings products and various other services. In fact, the Survey found that 95 per cent of the respondents have developed on average five products specific to their SME clients' needs. This reinforces the view that commercial banks see SMEs as an important component with substantial growth potential.

It was also observed that the SME product suite ranged between 3 and 23 products per bank; and it is anticipated that more innovation and tailored products will benefit the SME market segment.

Banks are also deploying new technology and driving a more customer-focused strategy, including through channel redesign and client relationship management structures, to harness the business potential SMEs present.

The findings of the KBA Survey conform to those of the earlier mentioned World Bank report in so far as the sectors that benefit from banks' direct funding to SMEs is concerned. These sectors include:

- manufacturing
- transportation
- tourism and hospitality
- agriculture and agro-processing
- trade
- real estate and construction
- energy
- information & communication technology
- education
- health
- insurance and other financial services
- business consultancy

As earlier noted, banks significantly contribute towards Government revenue through taxes. The other form of contribution that banks make directly to Government is through funding public sector initiatives through direct subscription to instruments such as infrastructure bonds. Whereas banks' lending to Government is typically seen as "crowding out" funds that could have otherwise gone to the private sector, the funding of Government programs geared towards creating capacity and efficiencies is enabling the private sector in general, and SMEs in particular.

### ***Walking the Extra Mile with Clients***

The SME Sector faces numerous challenges in a complex and dynamic market environment. Access to financing, as well as limited capacity to leverage market

opportunities and grow their businesses, are two fundamental areas that banks can directly influence thereby fostering accelerated growth of SMEs with a proven track record and potential.

The KBA Survey found that the banks are a viable option for businesses that are already operating and need a financial partner to grow their operations and increase their economic impact.

For this SME client, banks are willing to go the extra mile through provision of a variety of value-added services that are mostly centered on capacity building, such as free training and seminars; coaching and mentorship; and facilitating trade expos and international business trips for clients to gain exposure to new markets.

Similarly, banks have entered into financing and capacity building partnerships with the Government of Kenya and other Development Finance Institutions such as the African Development Bank, USAID, World Bank, and European Investment Bank to enhance their clients' capacity.

### ***Following Customers Across Borders***

The East African financial landscape has transformed significantly over the past decade. Cross-border banking has become increasingly important especially to Kenyan banks, with 11 of them expanding their outreach across the five East African Community member states and beyond.

In 2013, the KBA Centre for Research on Financial Markets and Policy© conducted research to determine the motivation of banks' expansion across borders. One of the studies - "Determinants of Bank Expansion in the East African Community: An Empirical Analysis of Kenyan Banks" - published in the KBA Working Paper Series - indicates that Kenyan banks extend their footprint in the regional economies mainly because of the need to follow their clients abroad, efficiency and size of the banks, and the potential market opportunities of the host countries.

***Another study - "The Drivers of Cross-border Banking Expansion: Evidence from East Africa" – published by KBA also concludes that, the follow-the-customer motive is a strong drive for bank expansion across East Africa.***

The fact that banks are following their customers across borders is testimony that the regional integration initiatives have enabled enterprises to expand beyond national borders, and therefore motivate banks to seek to support their business clients wherever they are. These enterprises are not necessarily multinational corporations, but in many cases are home-grown Kenyan entities which often fall within the SME category.



## ***Industry Interventions***

"Given the multi-stakeholder interest and influence on the cost of credit – effectively making the banking industry just one of the players – our approach as an industry has been one of collaboration to ensure that the economy's interest is adequately served."

– Habil Olaka, Kenya Bankers Association CEO

## ***1.) A Collaborative Approach to Unlocking Access to Credit***

**The topic of Interest Rates is probably one of the most complex for the banking industry. It is one that is as emotive as it is political. The KBA's guiding principle has been to collaborate with the National Treasury, Central Bank of Kenya and other stakeholders to see how together market players can develop both interim and long-term proposals to address concerns around enhancing access to credit.**

Banks have developed as well as adopted policies that would unlock access to credit. The Credit Information Sharing (CIS) initiative, that was initiated by KBA and Central Bank under the leadership of CBK Governor Prof. Njuguna Ndung'u, is one example which will see banks better price their loan products – based on the individual customer's risk profile. This initiative minimizes the reliance on traditional collateral, which is a challenge for most.

The CIS process attained an important milestone in January 2014, when the Credit Reference Bureau Regulations 2013 were gazetted, providing the legal framework for "full file" credit data sharing through licensed credit reference bureaus (CRBs) among commercial banks and deposit taking micro finance institutions (banks).

Other notable aspects of the CRB 2013 regulations include the provision for CRBs

to introduce the Agency model so that their services can be accessed by the public across the country. Currently, the two licensed CRBs (Metropol CRB and Transunion CRB) only operate in Nairobi.

Additionally, the new regulations also offer enhanced Consumer Protection mechanisms such as the issuance of pre-listing notices to borrowers before they are listed in the case of default(s) in repayments.

The future of CIS in Kenya is therefore promising. It is anticipated that there will be increased reliance on credit reports by lenders in the loan appraisal and risk management processes. Among borrowers, the reduced reliance on tangible collateral occasioned by increased reliance on credit histories as reputation capital is expected to help increase borrowers' access to credit on better terms.

### ***Enhancing Pricing Transparency***

Another promising industry intervention is enhancing competition and promoting consumer protection through pricing transparency. Towards this end, KBA has adopted a transparent pricing mechanism to facilitate standardised disclosure on the cost of borrowing to loan applicants.

Currently banks are required by the Central Bank to disclose the Total Cost of Credit and Repayment Schedule to loan applicants. By mid-2014, banks will introduce the Annual Percentage Rate (APR) framework which will enable customers to compare pricing and make even more informed decisions.

Banks are also working with the National Treasury and CBK to adopt a Reference Rate, which will be the benchmark against which banks will price their credit. The Reference Rate will contribute towards further enhancing transparency in pricing, given that it will be based on readily observable market variables.

Through the Cost of Credit Committee Chaired by National Treasury Cabinet Secretary, Henry Rotich, KBA during the First Half of 2014 proposed several other measures meant to address the inefficiencies that contribute to higher costs within the financial services industry, including automation of the Lands and Companies Registries.

Whereas measures meant to address the cost of credit will lead to increased access, they are only complimentary to the broader initiatives meant to enhance competition in the credit market. Such competition will come through when the full benefits of bridging information asymmetry and enhancing transparency will be realised.

## ***2.) Adopting New Technology in a New Era***

**Besides expanding their reach to new customer market segments and geographic regions, commercial banks in Kenya have over the years continually invested in technology to enhance the quality and security of their products and services.**

The accelerated rate of technological advancement necessitates continual investments; though bearing high costs, banks recognize the adoption of these technologies will create value through efficiency and product enhancement.

One of the industry initiatives towards enhancing efficiencies through technology that banks have substantially invested in is the Cheque Truncation Project. This project in 2013 enabled banks to electronically clear cheques within one business day -- compared to the 21 business days it took in the previous manual process. The move greatly benefits bank customers, especially businesses, by speeding up their cheque payment transactions, ultimately enhancing the flow of funds in the economy.

Another industry intervention in 2013 enabled by technology was the industrywide adoption of Chip and Pin technology for payment cards. In line with global trends, banks adopted the Europay, MasterCard and Visa (EMV) compliance standard on debit and credit cards, replacing the magnetic stripe card type, which is prone to cloning by fraudsters.

Banks successfully reached the September and December 2013 milestone dates for the upgrading and certification of their ATMs and Point of Sale (POS) infrastructure. Currently the industry is rolling out the new EMV certified Chip and Pin debit and credit cards to their clients across the country.

## ***The National Payment System***

A National Payment System (NPS) is a core component of the broader financial system and serves as the platform that provides the economy with highways for processing payments resulting from various economic activities. It encompasses all payment-related activities, processes, mechanisms, infrastructure, and institutions.

In addition to giving CBK the legal mandate to regulate payment service providers within the banking industry or any other industry, including telecommunications, the National Payment System Act of 2011 was amended in March 2014 to require all players to interoperate and ensure that the public gains from economies of scale created through the shared infrastructure.

The new NPS strategy necessitates additional investments by banks in technology and processes to enable interoperability and enhance efficiency, which is one of the hallmarks of a sound national payment system.

The role of KBA in the NPS strategy has been to promote dialogue on policy and structural measures that will ensure the Government and sector regulators realize their respective strategic objectives. Meanwhile, KBA is also spearheading processes that will promote further modernization and drive greater efficiency across interbank payments while enhancing system security.

## ***Cash-lite Economy***

Advancements in the nation's NPS strategy are primarily promoted by the Government of Kenya which has taken major steps towards driving the digital payments agenda across all public sector operations. Most recently, the Government announced a policy decision to digitize all receipts of cash for its services. The project, of which banks are a key stakeholder, requires investment in technology to ensure all government offices are able to take in electronic payments for their services.

Similarly, the National Transport and Safety Authority has issued regulations that require all operators of public service vehicles to collect fares using electronic systems. Already, there are ongoing initiatives by commercial banks to tap into these opportunities. It is anticipated that during 2014, banks will continue to respond to market developments centered on digitization and promotion of a cash-lite economy.

## ***Interplay Between Banks and MNOs***

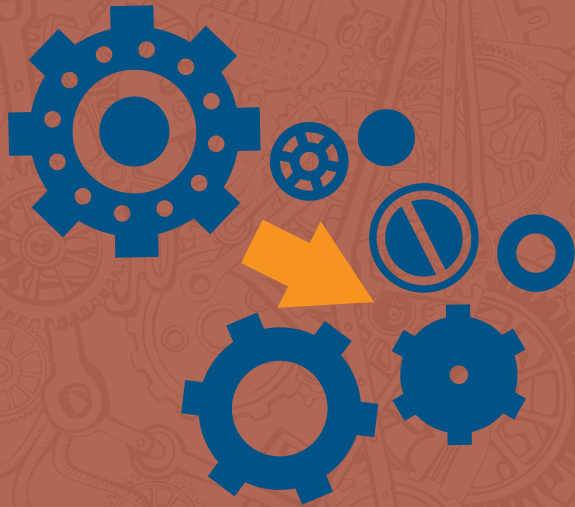
Mobile technology is playing a major role in improving the standards of service delivery in the financial services sector. Results from a KBA study on mobile banking that was published in January 2014 show that there is an increased uptake by banks in the use of mobile banking platforms in response to the growing number of Kenyans who now use their mobile phone for financial and banking transactions.

According to the Study, a vast majority of respondents perceive mobile banking as easier than normal banking services. Mobile banking was mainly associated with time saving, flexibility of access, physical security, and to a lesser extent, saving costs. Notably, respondents in rural areas, more than their urban counterparts, used mobile phones for financial transactions.

The preference of transactions using the mobile phone platform that is observed in the rural areas is a demonstration that technology is enabling access to financial services and contributing to inclusion in areas that have been excluded in the past. This is a finding that is in line with the FinAccess reports as earlier indicated.

***“The digital age is turning banking on its head. Investors want to apply for savings, investment and loan products online or via smartphones and tablets, at a time that suits them, not just during working hours. They also expect transactional processes—cheque clearing, direct debits and standing orders, as well as online payments to electronic retailers—to be easy, real-time and low-cost or free of charge.”***

***– Economist Intelligence Unit***



"Education is the most powerful weapon which you  
can use to change the world."  
– Nelson Mandela

# Community *Investment* Projects



**Over the years, commercial banks in Kenya have not only acted as financial intermediaries, but also invested increasingly in community development projects.**

According to the KBA Survey, commercial banks in Kenya have invested about KSh 3.7 billion in the last two years in high-impact Corporate Social Investment (CSI) projects across the country.

The financial institutions' allocation towards CSI has increased from KSh. 764.1 million in 2012 to KSh.1.4 billion in 2013. By the end of 2014, all respondents from the survey anticipate a further increase in their CSR allocations.

Additionally, commercial banks have been investing in cause-related sponsorships primarily in the area of sports talent development. As with CSI, budgets for cause-related sponsorships have been consistently increasing over the years. Commercial banks spent approximately KSh. 1 billion on such activities in 2013, compared to KSh. 200 million in 2012. Among the causes that have been supported is the Baringo Half Marathon that has been sponsored by ABC Bank over the last two years. The event draws athletic talent from across the country and is endorsed by the Paul Tergat Foundation.

From sports sponsorships that aim to identify and foster Kenya's next Vivian Cheruiyot or MacDonald Mariga – accomplished international athletes who

embody our national spirit – to innovative projects that promote entrepreneurship and financial literacy, banks are actively transforming lives.

Overall, banks are distinguishing themselves as responsible corporate citizens by taking up philanthropic responsibilities which tackle fundamental social concerns, including the key areas of education, health, water security and the environment.

***Funding Education***

Across the country, there is evidence of a number of high-impact projects initiated by commercial banks to uplift the standards of living among the different communities in which they operate. One key area that banks especially support is the area of Education.

As recognized by the Cabinet Secretary of the National Treasury Henry Rotich during the 2014/2015 Budget speech, the education sector is Kenya's top priority and by the same measure the banking industry is playing its part to support the national agenda.

Many banks, some through their foundations – as in the case of the Co-Op Bank Foundation – and others through their CSI budgets, sponsor poor but bright students from disadvantaged families to pursue secondary school, tertiary education and university studies.

At the lower primary level, there is a quest to foster a reading culture among school children. United Bank for Africa (UBA) for example created an initiative dubbed 'Read

Africa'. As part of the program, UBA donated copies of 'Weep Not Child', an inspiring novel published by renowned author Ngugi wa Thiong'o.

In addition to funding 'traditional' reading programs, banks are partnering with several special interest groups to shed light on the disparities in the allocation of resources targeting children with learning disabilities. Towards this end, GT Bank funds the Inter-School Art Challenge for non-traditional schools, namely Thika School for the Blind, Sanata Trust Gilgil and JoyTown Primary School.

In conjunction with these efforts, beneficiaries also gain from financial literacy and mentorship opportunities through the thousands of bank employees who volunteer their time. Consolidated Bank, Housing Finance, and CFC Stanbic Bank are just some of the many banks whose employees engage in volunteer services.

Other noteworthy initiatives include projects funded by Victoria Commercial Bank, National Bank of Kenya, Standard Chartered Bank, Family Bank, Diamond Trust Bank, Middle East Bank, Habib Bank, Prime Bank and Guardian Bank.

### ***Inspiring Entrepreneurship***

For Kenya to realize its Vision 2030 ambitions, including reaching the goals associated with youth employment and poverty reduction, the role of enterprise development must be promoted at every level.

In addition to directly financing SMEs, as well as facilitating Government schemes such as the Youth Enterprise Fund, banks are increasingly signing up to provide a platform for business development through impact investment programs.

The KCB Foundation for example collaborates with the Acumen Fund to identify and support young individuals who have been recognized within their communities for championing unique projects aimed at catalyzing positive social change in East Africa.

Another example of inculcating entrepreneurship amongst youth is the Equity Group Foundation Centres of Excellence that have been established across the country. At these centers, primary schoolchildren are trained on life and entrepreneurship skills in addition to being encouraged to excel in the school curriculum.

A slightly different intervention model has been used by other banks. For instance, Citibank, which typically caters for large multinational corporate clients, channels its CSI towards accelerating the growth of micro businesses in marginalized communities. In their program, Citi partners with the Association of Microfinance Institutions (AMFI) to build capacity and honour entrepreneurs who employ microfinance resources to boost their businesses and uplift their communities.

Credit Bank has also invested in boosting micro businesses through a pool fund

that the bank established for the Joyous Women Organisation to support women-owned start-ups; while Jamii Bora Bank is involved in supporting entrepreneurship development within the informal sector. Larger businesses are also supported through community programs, as is the case with capacity building workshops sponsored by NIC Bank, and Equatorial Commercial Bank.

### ***Health, Water and the Environment***

In addition to accessing quality education, other social inequalities that work against the financial inclusion agenda are quality of health, and food and water security.

The KBA Survey found that the health sector, which ranks second after education in terms of bank CSI funding, receives notable support from the industry, including participation from players such as K-Rep Bank, Commercial Bank of Africa, Ecobank and Fidelity Bank.

Environmental and water projects is the third area of focus for banks. Projects to provide clean and safe drinking water are supported by Giro Bank, and Bank of Africa, among others.

The KBA Survey also found that most banks support projects aimed at countering the impacts of climate change. An example is the Barclays longstanding tree planting initiative, which was endorsed by Nobel Peace Prize Laureate, the late Prof. Wangari Maathai.



K-Rep Bank Managing Director Albert Ruturi assists a volunteer during the K-Rep Bank Annual CSR walk. K-Rep Bank supports the Spinal Cord Injury Hospital.



Participants enjoy the KCB sponsored Kenya National Rally Championship in conjunction with the bank's title sponsorship of the Safari Rally.



Rachel Mbugua (left) Serere High School principal, and Suzanne Kinoti from Jamii Bora Bank admire a certificate of appreciation presented to Venessa Dufe Sokpo (center) after she emerged top student in the 2013 KCSE examinations. Jamii Bora presented the top two students a one-year scholarship to attend a local secondary school of their choice.



Citibank CEO Daniel Connelly presents a certificate to Lydia Mwikali Muithya, overall winner of the 2013 Citi Micro Entrepreneurship Awards held in partnership with the Association of Microfinance Institutions.



Standard Chartered staff members clean up Kibra slum as part of the bank's Employee Volunteering Day.



CFC Stanbic Bank Chief Executive Greg Brackenridge presents a Ksh2.5 million sponsorship cheque to Standard Media Group CEO Sam Shollei for the Transform Kenya Awards - Agriculture category.



Credit Bank - Nakuru Branch Team during a visit and clean-up activity at the Nakuru Hospice.



UBA Kenya staff, led by bank MD Tunji Adeniyi, participate in the Day of Peace 2013 coordinated by Kenya Bankers Association ahead of the General Elections.



Commercial Bank of Kenya MD Jeremy Ngunze presents a sponsorship contribution for the SOS Children's Home Kisumu House to Ms. Ruth Okowa, SOS National Director.



Hustlers YSL (Youth Savings and Loans) group of Dandora during their weekly meeting. Hustlers YSL is a group of 17 young men who engage in income-generating activities, and have adopted group savings and loans practices from the Banking on Change II program that has been implemented by CARE International and Barclays Kenya since 2009.



Family Bank CEO Peter Munyiri reads stories to the children at Kenyatta National Hospital Cancer Ward.



H.E. First Lady Mrs. Margaret Kenyatta launches the National Bank of Kenya tree planting campaign that targets to plant two million trees across the country by 2017.



H.E. President Uhuru Kenyatta with Equity Bank Group CEO Dr. James Mwangi award a scholarship letter to a Wings to Fly beneficiary.



Ecobank CEO Ehouman Kassi (left) and Health Cabinet Secretary James Macharia learn about the chemotherapy infusion pumps and chairs the bank donated to Kenyatta National Hospital.



Kenneth Kimeng'wa wins the men's race during the ABC Bank Baringo Half Marathon that benefits the Paul Tergat Foundation and area athletes.



Co-Op Bank Group MD Dr. Gideon Muriuki presents First Lady Mrs. Margaret Kenyatta a donation for the "Beyond Zero" campaign aimed at reducing preventable maternal and child deaths.



Victoria Commercial Bank staff, led by CEO Dr. Yogesh Pattni, serving food donated to the less fortunate at Makindu.



Runners from Diamond Trust Bank pose for a team picture after completing the Mater Heart Run.



Prime Bank together with the Rotary Club and Nairobi County Deputy Governor Jonathan Mueke donate supplies for Red Cross Volunteers and blood donors following the Westgate Siege.



NIC Bank Group CEO John Gachora mentors students from Aquinas High School during the job shadow week facilitated by Junior Achievement.



"We seek to strike a balance between the  
three 'Ps': People. Planet. Prosperity."  
– Bo Gatundu, Bank Employee



# KBA Convenes the *Sustainable Finance Initiative (SFI)*



*Banks are also concerned about the other challenges that Kenya currently faces in the areas of environmental degradation, social exclusion and resource scarcity.*

**Commercial banks in Kenya are working on a set of universal principles that will guide them in balancing their immediate business goals with the economy's future priorities and socio-environmental concerns.**

The development of these sustainability principles commenced in September 2013, when KBA convened a CEO Roundtable in Nairobi with the support of UNEP Finance Initiative (UNEP-FI), DEG (German Investment Corporation), and Netherlands Development Finance Company (FMO).

At the Roundtable, the bank CEOs approved the establishment of the Sustainable Finance Initiative (SFI) coordinated by KBA. By establishing the SFI, Kenya follows in the footsteps of other countries that have had initiatives either spearheaded by regulators or banks to encourage sustainable finance. The country initiatives include China's 'Green Credit Policy', Nigeria's 'Sustainable Banking Principles', and Paraguay's 'Roundtable for Sustainable Finance'.

In Kenya, the SFI will be guided by a Working Group consisting of the KBA secretariat and 12 banks. The SFI Working Group is tasked with developing recommendations, which will include proposals on capacity building and the creation of Sustainable Finance Guiding Principles that are customized for the Kenyan context.

#### **SFI Working Group Banks**

- Bank of Africa (Kenya)
- Commercial Bank of Africa

- Co-operative Bank of Kenya
- Equity Bank
- Gulf African Bank
- Habib Bank
- I&M Bank
- Jamii Bora Bank
- KCB Group
- NIC Bank
- National Bank of Kenya
- Standard Chartered Bank

The Kenya Sustainable Finance Principles will be in line with international best practices and consistent with the banking industry's environmental and social risk management aspirations. The Principles are also expected to be relevant to banks in general and responsive to individual banks' credit risk policies.

The SFI will also result in the development of a Capacity Building program, targeting bank credit managers and operations, as well as bank executive officers and board members.

The process of developing the principles and building industrywide capacity is motivated by the industry's desire to support efforts towards making Kenya's banking industry more globally competitive. It demonstrates that apart from deepening financial inclusion and contributing towards sustainable economic growth, banks are also concerned about the other challenges that Kenya currently faces in the areas of environmental degradation, social exclusion and resource scarcity.

# ***Sustainable Finance for Kenya Bank CEO Roundtable***

***10 September 2013, Stanley Hotel, Nairobi***

## ***Commitment Statement***

We, the members of the Kenya Bankers Association (KBA) and representatives of the Kenyan Banking Industry, believe that in order to have long-term business success, there is a need to recognize our environmental and social responsibilities, while simultaneously meeting our economic responsibilities and financial objectives. We believe that such an approach can enhance innovation, competitiveness and the quality of the credit portfolio of both individual banks and the industry.

We furthermore believe that the financial sector has a key role to play in achieving Kenya's long-term sustainable development goals as outlined in the Kenya Vision 2030. Through the integration of sustainability issues directly into our core business, we can fundamentally contribute to the greening of business and industry, job creation and social inclusion, thus helping society to address sustainability challenges such as social inequity, climate change, resource scarcity and biodiversity loss. We are prepared to take steps to ensure that our investment activities are carried out in line with international best-practices in Sustainable Finance, and with due regard to the Kenyan context.

## ***We, hereby, commit to:***

- **Corporate Sustainability**, which means transparently managing our responsibilities for environmental stewardship, social well-being and economic prosperity over the long term, while being held accountable to our shareholders;
- **Setting up a Working Group (Sustainable Finance Initiative)** to prepare a set of Kenyan Sustainable Finance Principles in the next 12 months, which will be in line with international best practices and consistent with the industry's environmental and social risk management aspirations.

The Principles will be relevant to the KBA General Body overall yet responsive to individual banks' credit risk policies. The KBA Secretariat will coordinate the Sustainable Finance Initiative that will report to the General Body via the Governing Council; and

- **Develop Internal Capacity** as required to manage our environmental and social responsibilities, with focus on commercial/credit risk management.

***Version 9 September 2013***

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