

KENYA



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History:

Founding president and liberation struggle icon Jomo KENYATTA led Kenya from independence in 1963 until his death in 1978, when President Daniel Toroitich arap MOI took power in a constitutional succession. The country was a de facto one-party state from 1969 until 1982 when the ruling Kenya African National Union (KANU) made itself the sole legal party in Kenya. MOI acceded to internal and external pressure for political liberalization in late 1991. The ethnically fractured opposition failed to dislodge KANU from power in elections in 1992 and 1997, which were marred by violence and fraud, but were viewed as having generally reflected the will of the Kenyan people. President MOI stepped down in December 2002 following fair and peaceful elections. Mwai KIBAKI, running as the candidate of the multiethnic, united opposition group, the National Rainbow Coalition (NARC), defeated KANU candidate Uhuru KENYATTA and assumed the presidency following a campaign centered on an anticorruption platform. KIBAKI's NARC coalition splintered in 2005 over the constitutional review process. Government defectors joined with KANU to form a new opposition coalition, the Orange Democratic Movement, which defeated the government's draft constitution in a popular referendum in November 2005. KIBAKI's reelection in December 2007 brought charges of vote rigging from ODM candidate Raila ODINGA and unleashed two months of violence in which as many as 1,500 people died. UN-sponsored talks in late February produced a power sharing accord bringing ODINGA into the government in the restored position of prime minister.¹

Population:

The Kenyan population is estimated at 37.9 million. Population growth is slowing. Kenya formerly had one of the fastest growing populations in the world. The rate of increase has slowed from 3.4% in 1979-89 to 3% in 1989-99 and is estimated at 2.7% in 1999-2008. The decline reflects the success of earlier family-planning campaigns, but also, more recently, the impact of the HIV/AIDS pandemic. Kenya's population was estimated by the UN Population Division to be 38.6m in mid-2008.

Macro Data:

Kenya's GDP is estimated at \$31.4 billion with the corresponding GDP per capita at \$1,800. The GDP is forecasted to grow at an average of 4.1% real growth rate. Services and Agricultural sectors comprise the greatest proportion of the GDP, 60% and 17% respectively. Unemployment rate is estimated at 12.7%² (as of 2006), with inflation at a staggering 26%. The 2008 average lending interest rate was 14%, a 9% spread to the average deposit interest rate of 5%.

¹ CIA Factbook Website: <https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html>

² EIU Country Profile 2008

Infrastructure:

The poor state of Kenya's infrastructure, including electricity, telecommunications and especially transport, is a major constraint on overall economic growth and development. The poor state of the road network, which carries the majority of goods transport, inhibits the expansion of trade. Electricity provision has failed to keep pace with rapidly rising demand, resulting in high costs and frequent power cuts. Despite persistent congestion, the port of Mombasa is a key asset for Kenya, serving as a conduit for imported goods to Kenya's regional neighbors. The development framework, Vision 2030, makes substantial provisions for the improvement of infrastructure, primarily road works. In the past, capital expenditure has been sidelined in favor of more pressing political concerns, and projects have stalled owing to poor management. However, the government is mobilizing more public resources to tackle the problem.³

The Banking System:

Kenya's banking system weakened in the 1990s, burdened by state control and bad debts, but is recovering under a series of ongoing financial sector reforms initiated by the Kibaki government. The amendment of the Banking Act in early 2007 had a mixed reception. The banking sector commended the provisions that make the sharing of negative credit information between commercial banks and credit bureaus mandatory. The law should lead to increase confidence in the market and result in the greater use of credit-scoring techniques to evaluate loan applications. Kenya's well-developed banking system is not burdened with the "toxic" debts that have undermined some rich country counterparts in 2008, and domestic liquidity is still flowing. However, the timing of the global downturn is unfortunate, as it will delay recovery from post-election unrest and is adding to pre-existing negative sentiment in the financial markets.

Kenya is an under-banked market. At present only about 10% of Kenyans (only 3.4 mm bank accounts compared to an adult population of 17 mm (of whom at least 8 mm are believed to be active in the cash economy) potentially eligible for bank accounts actually have them, largely because of the high costs and stringent conditions involved, leaving a large market for other financial service providers. Mobile phone companies are seeking to tap this demand, and in March 2007 the main operator, Safaricom (with about 5 million customers), launched the M-Pesa service, whereby sums of up to KSh35,000 (US\$500) can be transferred between mobile-

³ EIU Country Profile 2008

phone accounts, using agents as intermediaries. Eventually, M-Pesa aims to mirror conventional banks by offering loans and virtual current accounts.⁴

Recent Developments:

Despite the challenging operating environment brought about by post election violence in the first quarter of 2008 and the global financial crisis, the banking sector remained stable with all institutions adequately capitalized during the period ending December 2008. Institutions maintained capital adequacy ratios above the minimum requirement of 12.0 percent. Total assets expanded by 24.4 percent, deposits rose by 24.9 percent while pre-tax profits increased by 17.7 percent compared with a similar period in 2007. However, the level of gross non-performing loans increased by 7.3 percent. Similarly, return on assets declined from 3.3 percent in December 2007 to 2.8 percent in December 2008 mainly due to increase in assets.

The Kenyan banking sector comprised 43 commercial banks, two mortgage finance companies and 120 foreign exchange bureaus as at 31st December 2008.

Top 10 Banks as at December 2008

	Assets (Kshs. Billions)	% of GDP
1 Kenya Commercial	174.7	7.4%
2 Barclays	168.8	7.1%
3 Standard Chartered	99.1	4.2%
4 Cooperative	83.9	3.5%
5 CFC Stanbic	83.2	3.5%
6 Equity	77.2	3.2%
7 Commercial Bank of Africa	50.1	2.1%
8 Citibank Kenya	47.5	2.0%
9 NIC	42.7	1.8%
10 National Bank of Kenya	42.7	1.8%
Total	869.9	36.6%

The aggregate balance sheet of the banking sector registered significant growth in December 2008 compared with similar period in 2007. Deposits were the major source of funding accounting for the increase in the aggregate balance sheet. As a result, the banking

⁴ EIU Country Profile 2008

sector's assets increased by 24.4 percent from Ksh 959.5 billion in December 2007 to Ksh 1,193.4 billion in December 2008. Major components of total banking assets were loans and advances, which accounted for 44.0 percent of total assets followed by Government securities and placements at 18.0 percent and 12.0 percent, respectively.

Gross loans and advances, as at the end of December 2008, stood at Ksh 685.9 billion compared with Ksh 540.5 billion recorded in December 2007, representing an increase of 26.9 percent. The banking industry extended credits to various sectors of the economy including private households, manufacturing, trade, business services and other sectors. Total Loans and advances, net of provisions stood at Ksh 671.8 billion in December 2008 compared with Ksh 525.3 billion in December 2007. The increase in gross advances was attributed to borrowing by existing customers and new customers to meet business growth.

During the period under review, the banking sector's deposits remained the primary source of funding for the banking sector assets, and represented 78.0 percent of total liabilities at the end of December 2008. Total deposit liabilities increased by 24.4 percent from Ksh 752.3 billion in December 2007 to Ksh 935.6 billion in December 2008. Foreign currency deposits rose by Ksh 65.9 billion or 51.5 percent from Ksh 127.9 billion to Ksh 193.8 billion over the same period. This increase in deposit base was attributed to external donor inflows, remittances by Kenyans in the Diaspora and receipts from exports.

The capital adequacy for the banking sector which is measured by the ratio of total capital to risk-weighted assets remained fairly stable during the period to December 2008. The ratio of total capital to total risk-weighted assets ratio increased from 18.0 percent in December 2007 to 18.9 percent in December 2008. This ratio was well above the minimum regulatory requirement of 12 percent. In the twelve months to December 2008, total capital of the banking sector rose by 30 percent from Ksh 115.4 billion to Ksh 149.9 billion. Similarly, the total shareholders' funds of the banking system increased by 28.5 percent from Ksh 129.1 billion in December 2007 to Ksh 165.9 billion in December 2008. The increase in capital and reserves in the sector was attributed to retention of profits and fresh capital injection by some institutions.

The stock of gross non-performing loans (NPLs) increased by 7.3 percent from Ksh 57.3 billion in December 2007 to Ksh 61.5 billion as at December 2008. The ratio of gross non-performing loans to gross loans was 9.0 percent in December 2008 compared with 10.6 percent as at the end of December 2007. Consequently, the quality of assets, measured by the ratio of net non-performing loans to gross loans improved from 3.7 percent to 3.4 percent over the period as shown in Table 5.1. The reduction was attributable to the growing prudence in risk management, write offs and recoveries of NPLs.

The Central Bank⁵:

The Central Bank of Kenya was established in 1966 through an Act of Parliament - the Central Bank of Kenya Act of 1966. The establishment of the Bank was a direct result of the desire among the three East African states to have independent monetary and financial policies. This led to the collapse of the East Africa Currency Board (EACB) in mid 1960s.

The Central Bank of Kenya has the following primary missions:

1. To formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices;
2. To foster the liquidity, solvency and proper functioning of a stable market-based financial system;
3. To formulate and implement foreign exchange policy;
4. To hold and manage its foreign exchange reserves;
5. To license and supervise authorized dealers;
6. To formulate and implement such policies as best promote the establishment, regulation, and supervision of efficient and effective payment, clearing and settlement systems;
7. To act as banker and adviser to, and as fiscal agent to the Government ; and
8. To issue currency notes and coins.

The Bank has identified four principal objectives which evolve from its' vision and mission. The objectives and the underlying initiatives are:

Monetary Policy:

Monetary policy will be formulated and implemented objectively to support the achievement of economic growth in line with the government's current Economic Recovery Strategy and any subsequent revisions. Therefore;

The Bank will expand analysis and contributions to ongoing dialogue in respect of global and other regional integration initiatives, which benefit Kenya.

The Bank will streamline data management to increase the time spent in research on:-
Monetary policy analysis.

⁵ Central Bank of Kenya Website: <http://www.centralbank.go.ke/about/cbkbrief.html>

Conducting studies that will improve our understanding of the impact of monetary policy on the economy.

(ii) Stable financial system

Building upon progress made in risk assessment and management and the emphasis on Risk Based Supervision, the Bank will:

Fully implement Risk Based Supervision.

Participate in national, regional and global economic policy-making and implementation initiatives geared towards achievement of a stable and competitive market based financial system.

Strengthen inspection processes to review systems of internal control and compliance in financial institutions.

Prepare adequately to meet international standards for banking supervision.

Complete efforts underway to develop a formal early warning system to improve our capability to monitor and mitigate systemic risk.

(iii) Payments system

The Bank has made strides together with the Kenya Bankers Association and other stakeholders to modernize payment and settlement systems. These systems continue to undergo rapid change. Increasing concerns about information security combined with demands for increasing use of electronic payments present significant opportunity for the CBK to play the lead role in fostering and managing change. In response to these developments, the Bank plans to:

Establish a secure funds and securities transfer network.

Develop a legal and regulatory framework together with other stakeholders to facilitate modernization of the payments systems.

Review existing disaster recovery plans to enable the CBK to continuously operate its critical core functions.

(iv) Services to financial institutions, government agencies and the public

Working with financial institutions and other stakeholders CBK plans to:

Develop and support initiatives that will improve Kenyan public access to financial services.

Develop systems together with agencies of the Government to reduce paper volumes to accelerate the timeliness and efficiency of financial transactions.

Develop information sharing systems with the Government for external debt negotiation and contracting.

Complete the on-going currency reform program and expand currency issue sites to enhance the bank's clean banknote policy.

Promote public awareness and understanding of the functioning of the financial system.

Permit, as the general ledger automation effort is completed, on line access to account balances by Commercial Banks, the Kenya Revenue Authority and Government ministries.

Importance of Maintaining Price Stability

Maintaining price stability is crucial for a proper functioning of a market-based economy. Low and stable inflation refers to a price level that does not adversely affect the decisions of consumers and producers. High rates of inflation lead to inefficiency in a market economy and in the medium to longer term to a lower rate of economic growth.

How the Bank Ensures Price Stability

As movements in the general price level are influenced by the amount of money in circulation, the Central Bank of Kenya operates in a way that restricts the growth of the total money stock to a level that is consistent with a predetermined economic growth target. There are three major tools the Bank uses to implement monetary policy:

Open Market Operations: through open market operations, the Bank buys or sells Kenya Government Treasury Bills in the secondary market in order to achieve a desired level of Bank reserves. The Bank injects money to the economy when it buys Treasury Bills, and drains money when it sells it. As the law of supply and demand takes over in the money market, the cost of loanable funds (interest rates) adjusts itself to the desired level.

Discount Window Operations: the Bank, as lender of last resort, may provide secured short-term loans to commercial banks on overnight basis, but only after they have exhausted their market sources of funds. The discount rate is set by the Central Bank to reflect the monetary policy objectives.

Reserve Requirements: the Central Bank is empowered by the Act to demand a certain proportion of commercial banks' deposits to be held as non-interest bearing reserves at the Central Bank. An increase in reserve requirements would be regarded as an attempt to restrict bank credit. A reduction in the reserve ratio would be viewed as an expansion of credit as it increases the credit creation power of the banks.

Other Functions of the Bank

In addition to these primary responsibilities, the Central Bank performs other specific functions:

Issue of notes and coins: The Central Bank of Kenya is entrusted with the making, issuing and withdrawing worn out notes and coins in Kenya Shillings. The monopoly of issuing notes and coins enables it to exercise control over the money in circulation and thereby fulfill its primary responsibility of safeguarding the domestic value of the Kenya shilling. At present, the Central Bank issues five denominations of notes: Ksh 50, Ksh 100, Ksh 200, Ksh 500 and Ksh 1,000. While, new generation coins are in denominations of: 10 cents, 50 cents, Ksh 1, Ksh 5, Ksh 10 , Ksh 20 and Kshs 40.

Provision of banking services to Banks: The Central Bank provides commercial banks with clearing facilities, a task laid down in the CBK amendment Act of promoting the smooth operation of payments, clearing and settlement systems. The Bank is also entrusted with the supervision of commercial banks in order to ensure efficient and sound financial system in the interest of depositors and the economy as a whole.

Provision of Banking Services to Government: As banker and fiscal agent of Government, the Bank accepts deposits and effects payments on behalf of Government. It also maintains and operates special accounts for the Government. This function

Insurance Industry ⁶:

The Insurance Industry performance recorded a gross premium income of Kshs. 48.10 billion compared to Kshs 41.68 billion the previous year, representing a growth of 15.40%. This performance was as a result of the overall positive economic growth in the country, which was estimated at 7.0% compared to 6.4% (revised) in the previous year.

There are 43 licensed insurance companies in Kenya. Twenty companies wrote general insurance business only, seven wrote long term business only while fifteen were composite (both life and general). There were 201 licensed insurance brokers, 21 medical insurance providers (MIPs) , 2665 insurance agents, 2 locally incorporated re-insurers, 23 loss adjusters, 1 claims settling agent, 8 risk managers, 213 loss assessors/investigators, 30 insurance surveyors, and 8 risk managers during the year.

The industry experienced major challenges and opportunities during the past year. The Insurance Regulatory Authority (IRA) became operational towards the close of 2007. This will enhance the regulatory environment of the industry. The government introduced amendments

⁶ Association of Kenya Insurers Website

to the Insurance Act by raising the minimum capital requirement for insurance companies to Kshs 300 million for general, Kshs 150 million for life and Kshs 450 million for composite insurance companies respectively with full compliance expected by 2010. Further the Margin of Solvency for long term insurance companies was amended in line with recommendations from the Association. The requirement for upfront payment of premium ('cash and carry') was introduced for all classes of insurance (Previously, it applied to fire and motor insurance).

The government continues to demonstrate its commitment in strengthening the financial services sector and has proposed various amendments touching on the insurance sector in the 2008/9 budget. General insurance companies will be allowed to invest up to 10% of their admitted assets in shares, loans or debentures in one company or group of companies, up from 5%. Insurance companies will also be required to settle claims within 90 days after liability has been determined by a court, otherwise the Insurance Regulatory Authority will levy a penalty of 5% of the outstanding amounts and institute winding up process if payment for both principal and penalty is not forthcoming. The proposed amendment on claims settlement is an opportunity for insurance companies to demonstrate their commitment to improving customer service. The other amendment requires that profits from life insurance business arising from actuarial valuation will be taxed regardless of whether a transfer from the life fund to the shareholders has been effected or not.

The political crisis experienced in the first quarter of 2008 had a negative impact on the economy and the insurance industry. The formation of the Grand Coalition Government has however given hope and impetus to economic recovery. Going forward, the insurance industry is looking for ways of enhancing the use of ICT, research & product development and addressing the future underwriting of Public Service Vehicles.

The Stock Market ⁷:

The Nairobi Stock Exchange (NSE) was started in the 1920's by the British as an informal market for Europeans only. In 1954, the market was formalized through incorporation into a company. In 1963, Africans were allowed to join and trade in the market. For many years, the market operated through the telephone with a weekly meeting and was later opened to the public. In 1994, the market introduced the Central Depository and Settlement Corporation (CDSC) where investors could open share and bond accounts, in electronic accounts similar to their bank accounts.

⁷ EIU Country Profile 2008; Nairobi Stock Exchange Website

The main purpose of the NSE is to provide a platform that allows for the listing of both equities and corporate bonds. By doing so, the stock exchange assists in the transfer of savings to investments in productive enterprises as an alternative to keeping the savings idle. For any listing on the NSE, a minimum of 25.0% of the issued share capital is reserved for resident investors while the balance becomes a free float for all classes.

The NSE which became an automated exchange in September 2006 is the most active exchange in East Africa. In December 2007 the NSE installed a wide-area network (WAN), which allows its members to execute trades from their offices. The WAN is expected to be a precursor to Internet trading and day-trading via the automated trading system (ATS). At the same time, under the auspices of the East African Securities Exchanges Association (EASEA), which is a member of the Capital Markets Development Committee of the East African Community (EAC), regional bourses are co-operating to deepen integration and development. Rwanda's over-the-counter stock market was launched in January 2008; this, with the Dares Salaam Stock Exchange in Tanzania, rounds out the EAC's four stock markets.

Comprehensive NSE Stock List (as of March 5, 2009):

There are 59 publicly listed companies on the Nairobi Stock Exchange (55 equities, 7 corporate bonds, 3 of which have listed equities). The equities are classified under the following categories:

Agricultural – 7%

Commercial and Services – 23%

Finance and Investment – 35%

Industrial and Allied – 35%

(see full list below)

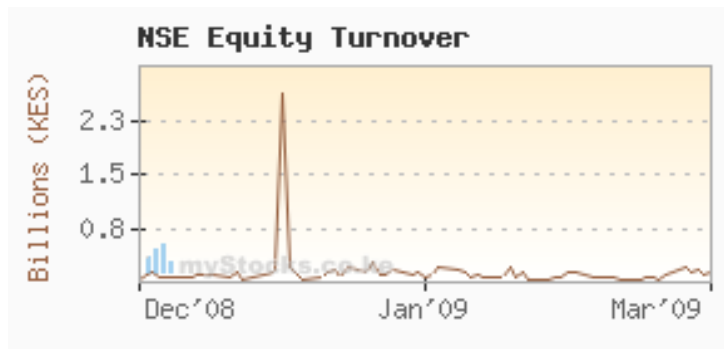
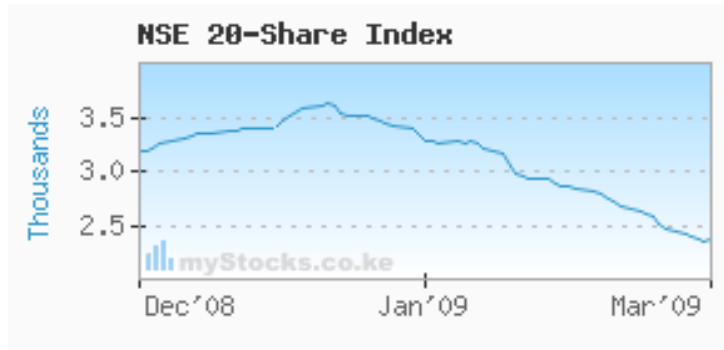
LAST 12 MONTHS		As of April 2, 2009				
HIGH	LOW	AGRICULTURAL	VWAP	TOTAL SHARES	Market Cap (Kshs. Millions)	
40.00	19.00	Kakuzi Ord.5.00			407	
23.00	9.50	Rea Vipingo Plantations Ltd Ord 5.00			783	
20.25	3.85	Sasini Ltd Ord 1.00	5.35	35,100	1,243	
COMMERCIAL AND SERVICES						
40.00	14.00	AccessKenya Group Ltd Ord. 1.00	18.05	111,600	3,451	
60.00	40.00	Car & General (K) Ltd Ord 5.00			719	
23.50	9.00	CMC Holdings Ltd Ord 0.50	12.50	34,400	7,342	
-	-	Hutchings Biemer Ltd Ord 5.00			7	
80.00	18.45	Kenya Airways Ltd Ord 5.00	21.50	15,600	8,194	
47.00	24.50	Marshalls (E.A.) Ltd Ord 5.00			345	
395.00	100.00	Nation Media Group Ord. 2.50	126.00	2,500	17,684	
8.15	2.50	Safaricom limited Ord 0.05	2.90	5,771,600	126,000	
35.00	16.00	Scangroup Ltd Ord 1.00	20.00	14,300	4,028	
63.00	40.00	Standard Group Ltd Ord 5.00	45.00	100	3,023	
85.50	24.75	TPS Eastern Africa (Serena) Ltd Ord 1.00	29.75	5,000	3,176	
-	-	Uchumi Supermarket Ltd Ord 5.00			2,610	
FINANCE AND INVESTMENT						
85.00	35.00	Barclays Bank Ltd Ord 2.00	41.25	9,520	53,297	
34.75	8.50	Centum Investment Company Ltd Ord 0.50	9.65	190,600	5,170	
150.00	45.50	CFC Stanbic Holdings Ltd ord.5.00	48.50	400	13,137	
110.00	45.25	Diamond Trust Bank Kenya Ltd Ord 4.00	56.50	5,279	8,967	
341.00	93.00	Equity Bank Ltd Ord 5.00	17.85	1,455,700	53,690	
55.00	11.40	Housing Finance Co Ltd Ord 5.00	14.60	21,700	3,255	
253.00	85.00	Jubilee Holdings Ltd Ord 5.00	101.00	100	4,230	
34.75	15.00	Kenya Commercial Bank Ltd Ord 1.00	19.55	114,101	41,362	
19.35	7.50	Kenya Re-Insurance Corporation Ltd Ord 2.50	11.75	228,335	6,840	
69.00	25.00	National Bank of Kenya Ltd Ord 5.00	28.50	20,300	5,950	
205.00	29.00	NIC Bank Ltd Ord 5.00	30.25	79,204	8,752	
20.50	8.00	Olympia Capital Holdings Ltd Ord 5.00	9.30	500	364	
105.00	47.00	Pan Africa Insurance Holdings Ltd Ord 5.00			2,112	
236.00	126.00	Standard Chartered Bank Ltd Ord 5.00	140.00	21,765	37,260	
13.50	6.35	The Co-operative Bank of Kenya Ltd Ord 1.00	6.45	412,800	21,520	
INDUSTRIAL AND ALLIED						
120.00	60.00	Athi River Mining Ord 5.00			6,016	
-	-	B.O.C Kenya Ltd Ord 5.00			3,124	
205.00	110.00	Bamburi Cement Ltd Ord 5.00	119.00	2,500	42,466	
180.00	128.00	British American Tobacco Kenya Ltd Ord 10.00	138.00	67,100	15,300	
-	-	Carbacid Investments Ltd Ord 5.00			1,552	
56.00	8.00	Crown Berger Ltd Ord 5.00	13.10	4,500	286	
53.00	14.00	E.A.Cables Ltd Ord 0.50	20.50	12,300	3,554	
142.00	40.00	E.A.Portland Cement Ltd Ord 5.00			6,750	
220.00	93.50	East African Breweries Ltd Ord 2.00	114.00	20,438	90,148	
9.30	2.70	Eveready East Africa Ltd Ord.1.00	2.85	21,100	662	
120.00	41.00	Kenya Oil Co Ltd Ord 0.50			6,623	
295.00	97.00	Kenya Power & Lighting Ltd Ord 20.00	119.00	102,200	9,021	
37.00	9.00	KenGen Ltd. Ord. 2.50	12.70	62,694	25,391	
46.50	3.20	Mumias Sugar Co. Ltd Ord 2.00	4.35	504,600	6,273	
14.45	4.25	Sameer Africa Ltd Ord 5.00	4.40	139,700	1,350	
35.50	24.00	Total Kenya Ltd Ord 5.00	32.50	8,700	5,709	
16.35	6.50	Unga Group Ltd Ord 5.00	7.55	1,100	530	

In the recent past, the Kenyan Government has undertaken privatization of some of its fully owned entities via an initial public offering on the NSE. Below are some of the largest privatizations to date on the NSE.

Largest Privatizations via IPO

Year	Company	Amount Raised (Kshs. Millions)
2008	Safaricom	50,000
2006	KENGEN	7,800
1996	Kenya Airways	2,664
2007	Kenya Re-Insurance	2,280
2001	Mumias	1,125
1994	National Bank of Kenya	400
1990	Kenya Commercial Bank	297
1992	Housing Finance of Kenya	126

As of January 2009 the NSE was Africa's fourth-largest stock exchange in terms of trading volumes, and the continent's fifth-largest in terms of market capitalization as a percentage of GDP. Its top five and top ten companies by market capitalization account for 47% and 66% respectively of the exchange's total market capitalization. There was mixed performance at the equities market in the month of January 2009 as reflected by key market indicators. The number of shares traded increased from 170.7 million in December 2008 to 177.6 million in January 2009. Equity turnover declined by Ksh 1,992.7 million, from Ksh 4,617.1 million in December 2008 to Ksh 2,624.4 million in January 2009. The market capitalization declined by Ksh 76.2 billion, from Ksh 853.7 billion in December 2008 to Ksh 777.5 billion in January 2009. Monthly trading volume as a fraction of market capitalization and GDP was 0.3% and 0.1% respectively. The NSE 20 Share Index fell by 322.3 points to close at 3,198.9 points in January 2009. Market liquidity ratio increased slightly to 0.3 percent in January 2009 from 0.29 percent in December 2008 following an increase in the number of shares traded. In February 2009, the NSE 20 share index dropped significantly to close at 2,511.5 points. The number of shares traded and market capitalization also declined. Currently the average market P/E and P/B trading multiples are 10.8x and 12.3x respectively. The median index yield stands at 3.3%. The bear run is largely due to low investor confidence in the bourse.



In the past year, foreign investors (most of whom were hedge funds covering positions) have been net sellers of approximately Kshs. 8 billion. On a more positive note, Franklin Templeton recently launched its frontier market fund with 10% of its holding in Kenya.

The Government Bond Market

Kenya's public and publicly guaranteed debt increased by 11.6 percent in the second quarter of the fiscal year 2008/09 to stand at Ksh 971.6 billion in December 2008 from Ksh 870.6 billion in June 2008. The overall Government debt stock increased in absolute terms during the period following a rise of Ksh 25.6 billion in domestic debt and Ksh 75.4 billion in external debt. The percentage of domestic debt in total debt decreased from 49.5 percent to 47.0 percent during the period while external debt increased from 50.5 percent to 53.0 percent.

However, as a percentage of GDP, overall public debt stock increased from 42.8 percent in June 2008 to 43.9 percent in December 2008. In particular, the share of external debt in GDP rose from 21.6 percent to 23.3 percent during the period while domestic debt decreased from 21.1 percent of GDP to 20.6 percent during the period.

Treasury Bills are short-term Government securities sold by the Central bank on behalf of the Treasury. An investor buys at a discount and receives payment of face value on maturity date. Currently, the T/bills on offer are for maturity periods of 91 days (three months) and 182 days (six months).⁸ During the second quarter of the fiscal year 2008/09, Government domestic financing was entirely through Treasury bills and drawdown of its deposits at CBK. As a result, Treasury bills increased from Ksh 76.8 billion in June 2008 to Ksh 87.5 billion in December 2008. Similarly, Treasury bills increased from 17.7 percent of total domestic debt to 19.2 percent during the period. Treasury bills held by commercial banks rose from Ksh 26.4 billion (34.4 percent) to Ksh 42.1 billion (48.2 percent) during the period. The percentage of 91-day Treasury bills in total Government securities decreased from 4.59 percent to 4.56 percent while 182-day Treasury bills increased from 15.0 percent to 17.0 percent in the period.

Treasury Bonds are medium to long term Government Securities sold by Central Bank of Kenya on behalf of Treasury. An investor earns a return during the period of the security and repayment of the face value is made on maturity date. Currently, the T/bonds on offer are for maturity periods ranging from 1(one) year and above. Individuals and corporate bodies, including non-residents. The minimum amount is a face value of Kshs.50,000= after which, any additional amounts MUST be in multiples of Kshs.50,000=⁹ Treasury bonds increased from Ksh 315.2 billion in June 2008 to Ksh 318.6 billion in December 2008. The percentage of Treasury bonds in total domestic debt decreased from 73.2 percent to 69.8 percent during the period while commercial banks holdings of Treasury bonds increased from Ksh 156.1 billion (49.5 percent) to Ksh 162.6 billion (51.0 percent). The 5-year Treasury bonds accounted for the largest proportion of outstanding Government securities during the period increasing from 11.1

⁸ Central Bank of Kenya Website: <http://www.centralbank.go.ke/treasurybills/index.asp>

⁹ Central Bank of Kenya Website: <http://www.centralbank.go.ke/treasurybonds/intro.html>

percent to 12 percent. The percentage of Treasury bonds with maturities of between 10-years and 15- years increased from 20.7 percent to 21.2 percent during the period following successful issuance of longer dated Treasury bonds. Despite the increase in outstanding Treasury bonds during the period, the average maturity profile of domestic debt (by days to maturity) decreased from 3 years and 8 months in June 2008 to 3 years and 6 months in December 2008.

In January 2009, the Central Bank of Kenya issued the first Infrastructure Bond for a total value of Kshs 18.5billion to finance specific projects in the Roads, Energy and Water sectors. Total bids received of 1542 amounting to Kshs 26.88 Billion were considered. The small investors comprising of individuals and institutions with up to Kshs 5 Million brought Kshs 1.37billion representing 5.08% of the total bids received. Out of the Kshs 18.57billion accepted, the competitive and non-competitive bids accounted for 83% and 17% respectively. The auction returned a weighted average rate of 13.505% at a price of Kshs 94.109 per Kshs 100.

The bond is has actively traded in the secondary market, owing to the large size and higher yields. The bond market has recently received considerable interest from investors, evidenced by the increased liquidity in the fixed income market. This may be attributed to investors preferring guaranteed returns in the bond market at a time when the NSE performance is on a declining trend. The enhanced liquidity has also pushed interest rates down, with the 91 day T-Bill comparative yields dropping 16.2% YTD to 7.157% as at last week's auction. The long-term rates are however facing the reverse trend with this new issue expected to steepen the yield curve with the rise in long-term rates.

(See full bonds list below)

BONDS PRICELIST											DATE	11-Apr-09
Issue No.	ISIN CODES	Issue Date	Maturity Date	Days to Maturity	Issued Value in millions	Coupon Rate	Coupon (%)	Traded Yield (%)	Previous Price (%)	Clean Price (%)	Total Value Traded (kshs)	
GOVERNMENT OF KENYA FIXED RATE TREASURY BONDS												02-Apr-2009
ONE YEAR BONDS												
ZC2/2008/1Yr	K E 1 0 0 0 0 0 1 5 1 9	28-Jul-08	27-Jul-09	107	8,000	-		7.800	94.4397	97.5910	500,000	
ZC3/2008/1Yr	K E 1 0 0 0 0 0 1 6 0 3	24-Nov-08	23-Nov-09	226	5,000	-			94.2783			
ZC1/2009/1Yr	K E 1 0 0 0 0 0 1 6 2 5	26-Jan-09	25-Jan-10	289	5,000	-			92.3125			
TWO YEAR BONDS												
FXD3/2007/2Yr	K E 1 0 0 0 0 0 1 3 9 7	12-Nov-07	21-Dec-09	254	7,000	Fixed	8.75		99.6597			
FXD1/2008/2Yr	K E 1 0 0 0 0 0 0 4 4 4	28-Apr-08	26-Apr-10	380	7,000	Fixed	8.75		98.7137			
FXD2/2008/2Yr	K E 1 0 0 0 0 0 1 4 7 7	26-May-08	24-May-10	408	7,000	Fixed	8.75		99.2958			
FXD3/2008/2Yr	K E 1 0 0 0 0 0 1 5 3 0	25-Aug-08	23-Aug-10	499	8,000	Fixed	8.75		98.9293			
FXD4/2008/2Yr	K E 1 0 0 0 0 0 1 6 1 9	29-Dec-08	27-Dec-10	625	6,000	Fixed	8.75		98.9586			
FXD1/2009/2Yr	K E 1 0 0 0 0 0 1 6 4 7	23-Mar-09	21-Mar-11	709	8,500	Fixed	8.75		98.2457			
FXD1/2009/2Yr	K E 1 0 0 0 0 0 1 6 4 7	23-Mar-09	21-Mar-11	709	8,500	Fixed	8.75		98.2353			
THREE YEAR BONDS												
FXD2/2006/3Yr	K E 1 0 0 0 0 0 0 8 2 6	28-Aug-06	24-Aug-09	135	3,176	Fixed	8.50		96.7700			
FXD3/2006/3Yr	K E 1 0 0 0 0 0 0 8 3 4	25-Sep-06	21-Sep-09	163	3,690	Fixed	8.50		99.5140			
FOUR YEAR BONDS												
FXD1/2005/4Yr	K E 1 0 0 0 0 0 0 8 6 7	23-May-05	18-May-09	37	3,625	Fixed	12.25		100.9888			
FXD3/2005/4Yr	K E 1 0 0 0 0 0 0 8 7 5	31-Oct-05	26-Oct-09	198	5,607	Fixed	12.25		102.5860			
FXD1/2006/4Yr	K E 1 0 0 0 0 0 0 8 8 3	24-Apr-06	19-Apr-10	373	3,923	Fixed	11.25		101.9043			
FXD1/2007/4Yr	K E 1 0 0 0 0 0 0 8 9 1	26-Feb-07	21-Feb-11	681	5,126	Fixed	11.00		101.8465			
FIVE YEAR BONDS												
FXD1/2004/5Yr	K E 1 0 0 0 0 0 0 9 3 3	26-Apr-04	20-Apr-09	9	1,521	Fixed	6.00		99.9897			
FXD1/2005/5Yr	K E 1 0 0 0 0 0 0 9 4 1	20-Jun-05	14-Jun-10	429	1,827	Fixed	12.50		99.9527			
FXD2/2005/5Yr	K E 1 0 0 0 0 0 0 9 5 8	28-Nov-05	22-Nov-10	590	5,941	Fixed	13.00		104.8442			
FXD1/2006/5Yr	K E 1 0 0 0 0 0 0 9 6 6	29-May-06	23-May-11	772	1,864	Fixed	11.25		103.0511			
FXD2/2006/5Yr	K E 1 0 0 0 0 0 0 9 7 4	31-Jul-06	25-Jul-11	835	2,594	Fixed	11.25		102.5257			
FXD2/2006/5Yr	K E 1 0 0 0 0 0 0 9 7 4	31-Jul-06	25-Jul-11	835	2,594	Fixed	11.25		101.6050			
FXD1/2007/5Yr	K E 1 0 0 0 0 0 0 9 8 2	29-Jan-07	23-Jan-12	1,017	2,594	Fixed	11.25		100.8656			
FXD2/2007/5Yr	K E 1 0 0 0 0 0 0 9 9 0	27-Aug-07	20-Aug-12	1,227	4,528	Fixed	9.50		96.8356			
FXD3/2007/5Yr	K E 1 0 0 0 0 0 1 0 0 6	24-Sep-07	17-Sep-12	1,255	9,000	Fixed	9.50		95.7524			
FXD1/2008/5Yr	K E 1 0 0 0 0 0 1 0 3 9	28-Jan-08	21-Jan-13	1,381	7,000	Fixed	9.50		96.8816			
FXD 2/2008/5Yr	K E 1 0 0 0 0 0 1 0 4 3 6	28-Apr-08	22-Apr-13	1,472	7,000	Fixed	9.50		96.7287			
FXD 3/2008/5Yr	K E 1 0 0 0 0 0 1 0 5 4 4	25-Aug-08	19-Aug-13	1,591	7,000	Fixed	9.50		95.5252			
FXD 4/2008/5Yr	K E 1 0 0 0 0 0 1 0 6 7 8	27-Oct-08	21-Oct-13	1,654	7,000	Fixed	9.50		94.5944			
SIX YEAR BONDS												
FXD2/2003/6Yr	K E 1 0 0 0 0 0 1 0 3 0	26-May-03	18-May-09	37	5,397	Fixed	11.50		100.8417			
FXD3/2003/6Yr	K E 1 0 0 0 0 0 1 0 4 8	24-Nov-03	16-Nov-09	219	1,694	Fixed	6.00		96.6611			
FXD1/2004/6Yr	K E 1 0 0 0 0 0 1 0 5 5	23-Feb-04	15-Feb-10	310	4,415	Fixed	6.50		97.5191			
FXD2/2004/6Yr	K E 1 0 0 0 0 0 1 0 6 3	26-Jul-04	19-Jul-10	464	2,526	Fixed	6.75		94.5589			
FXD1/2005/6Yr	K E 1 0 0 0 0 0 1 0 7 1	26-Dec-05	19-Dec-11	982	7,407	Fixed	13.00		105.0915			
FXD1/2006/6Yr	K E 1 0 0 0 0 0 1 0 8 9	26-Jun-06	18-Jun-12	1,164	6,013	Fixed	11.75		101.9793			
FXD2/2006/6Yr	K E 1 0 0 0 0 0 1 0 9 7	27-Nov-06	19-Nov-12	1,318	5,696	Fixed	11.50		104.1890			
FXD1/2007/6Yr	K E 1 0 0 0 0 0 1 1 0 5	30-Apr-07	22-Apr-13	1,472	6,000	Fixed	11.50	10.300	103.2344	103.8817	50,000,000	
SEVEN YEAR BONDS												
FXD1/2003/7Yr	K E 1 0 0 0 0 0 1 1 1 3	24-Mar-03	15-Mar-10	338	2,801	Fixed	13.75		103.7157			
FXD2/2003/7Yr	K E 1 0 0 0 0 0 1 1 2 1	27-Oct-03	18-Oct-10	555	3,095	Fixed	6.50		94.2648			
FXD1/2004/7Yr	K E 1 0 0 0 0 0 1 1 3 9	26-Jan-04	17-Jan-11	646	2,662	Fixed	6.75		95.5226			
FXD2/2004/7Yr	K E 1 0 0 0 0 0 1 1 4 7	23-Aug-04	15-Aug-11	856	1,773	Fixed	7.00		90.6684			
FXD1/2006/7Yr	K E 1 0 0 0 0 0 1 1 5 4	30-Jan-06	21-Jan-13	1,381	3,235	Fixed	13.25		109.4483			
FXD2/2006/7Yr	K E 1 0 0 0 0 0 1 1 6 2	25-Dec-06	16-Dec-13	1,710	2,262	Fixed	12.00		105.2033			
FXD1/2007/7Yr	K E 1 0 0 0 0 0 1 1 7 0	30-Jul-07	21-Jul-14	1,927	8,000	Fixed	9.75		93.9497			
EIGHT YEAR BONDS												
FXD1/2003/8Yr	K E 1 0 0 0 0 0 1 1 8 8	28-Apr-03	18-Apr-11	737	3,907	Fixed	12.50		99.9731			
FXD2/2003/8Yr	K E 1 0 0 0 0 0 1 1 9 6	29-Sep-03	19-Sep-11	891	5,023	Fixed	7.00		96.9615			
FXD1/2004/8Yr	K E 1 0 0 0 0 0 1 2 0 4	22-Mar-04	12-Mar-12	1,066	3,038	Fixed	7.50		92.4892			
FXD1/2006/8Yr	K E 1 0 0 0 0 0 1 2 1 2	27-Feb-06	17-Feb-14	1,773	3,319	Fixed	13.25		105.6670			
FXD1/2007/8Yr	K E 1 0 0 0 0 0 1 2 2 0	26-Feb-07	16-Feb-15	2,137	3,922	Fixed	12.75		107.4849			
NINE YEAR BONDS												
FXD1/2003/9Yr	K E 1 0 0 0 0 0 1 2 3 8	26-May-03	14-May-12	1,129	2,368	Fixed	12.75	12.50	106.0179	99.9830	1,050,000	
FXD2/2003/9Yr	K E 1 0 0 0 0 0 1 2 4 6	28-Jul-03	16-Jul-12	1,192	7,187	Fixed	9.50		98.5950			
FXD1/2006/9Yr	K E 1 0 0 0 0 0 1 2 5 3	24-Apr-06	13-Apr-15	2,193	3,060	Fixed	13.50		101.8190			
TEN YEAR BONDS												
FXD1/2003/10Yr	K E 1 0 0 0 0 0 1 2 6 1	23-Jun-03	10-Jun-13	1,521	2,705	Fixed	13.25		109.2624			
FXD2/2003/10Yr	K E 1 0 0 0 0 0 1 2 7 9	25-Aug-03	12-Aug-13	1,584	5,929	Fixed	8.50		91.3597			
FXD1/2006/10Yr	K E 1 0 0 0 0 0 1 2 8 7	27-Mar-06	14-Mar-16	2,529	3,451	Fixed	14.00		115.7065			
FXD2/2006/10Yr	K E 1 0 0 0 0 0 1 2 9 5	29-May-06	16-May-16	2,592	5,028	Fixed	14.00	14,000	109.4162	99.9509	1,800,000	
FXD1/2007/10Yr	K E 1 0 0 0 0 0 1 3 0 3	29-Oct-07	16-Oct-17	3,110	9,000	Fixed	10.75	11,950	98.0771	93.6504	100,000	
FXD1/2008/10Yr	K E 1 0 0 0 0 0 1 3 0 3	29-Oct-07	16-Oct-17	3,110	9,000	Fixed	10.75		99.4246			
FXD2/2008/10Yr	K E 1 0 0 0 0 0 1 3 1 0	28-Jul-07	16-Jul-18	3,383	8,000	Fixed	10.75					
FXD3/2008/10Yr	K E 1 0 0 0 0 0 1 3 1 8	29-Sep-08	28-Sep-19	3,822	3,911	Fixed	10.75		98.5490			
ELEVEN YEAR BONDS												
FXD1/2006/11Yr	K E 1 0 0 0 0 0 1 3 1 1	25-Sep-06	11-Sep-17	3,075	3,910	Fixed	13.75		113.1815			
TWELVE YEAR BONDS												
FXD1/2006/12Yr	K E 1 0 0 0 0 0 1 3 2 9	28-Aug-06	13-Aug-18	3,411	3,824	Fixed	14.00		95.5927			
FXD1/2007/12Yr	K E 1 0 0 0 0 0 1 3 3 7	28-May-07	13-May-19	3,684	5,000	Fixed	13.00		108.8128			
FIFTEEN YEAR BONDS												
FXD1/2007/15Yr	K E 1 0 0 0 0 0 1 3 4 5	26-Mar-07	7-Mar-22	4,713	3,824	Fixed	14.50		111.3125			
FXD2/2007/15Yr	K E 1 0 0 0 0 0 1 3 5 2	25-Jun-07	6-Jun-22	4,804	7,500	Fixed	13.50		104.6865			
FXD3/2007/15Yr	K E 1 0 0 0 0 0 1 3 6 0	26-Nov-07	7-Nov-22	4,958	7,404	Fixed	12.50		98.5547			
FXD1/2008/15Yr	K E 1 0 0 0 0 0 1 3 6 8	31-Mar-08	13-Mar-23	5,084	7,000	Fixed	12.50	12,500	98.0628	99.9970	1,000,000	
TWENTY YEAR BONDS												
FXD1/2008/20Yr	K E 1 0 0 0 0 0 1 3 7 6	30-Jun-08	5-Jun-28	6,995	15,000	Fixed	13.75	14,000	96.3720	98.7971	5,000,000	
INFRASTRUCTURE BOND												
IEB 1/2009/12Yr	K E 1 0 0 0 0 0 1 3 8 3	28-Feb-09	8-Feb-24	4,284	12,500	Fixed	12.50	12,500	101.4700	102.2450	200,000	

Private Equity:

Private Equity is a budding financial services sector in the country. The major players in the country include Actis and Aureos East Africa Fund (a \$40 million fund) ¹⁰who have invested across a variety of asset classes ranging from real estate, agribusiness, financial services and infrastructure.

In December 2007 Helios (a London based Africa focused fund) completed the \$178.7 million acquisition of a 24.99% interest in Equity Bank, a Nairobi Stock Exchange-listed bank. Equity Bank focuses on providing banking services to the hitherto un-banked population. The successful execution of that strategy has enabled Equity Bank to build Kenya's largest base of account holders and industry-leading growth rates and profitability. Helios is represented on the Bank's board of directors and holds the chairmanship of several board committees. The investment and strategic partnership with the bank will enable the Bank to continue its local and regional expansion, increase its lending capability and provide capital for investment in the Bank's internal operations, principally information technology systems and human resources.

Venture Capital

The main player in the Venture Capital market is the Fanisi Fund (a Norfund funded entity), and which invests in a broad range of small and growing businesses, seeking to provide risk capital to those with the greatest chances of success.

Microfinance ¹¹:

The micro finance industry in Kenya is dominated by many small players. As of June 2003, there were an estimated 3,460 legally constituted microfinance service providers in Kenya, including 3,397 savings and credit co-operatives and co-operative-like community-based intermediaries, 56 microfinance institutions (MFIs), four commercial banks, two building societies, and the Kenya Post Office Savings Bank. Excluded from this list were 17,305 rotating savings and credit associations (ROSCAs), 115,884 registered women groups', and 1,342

¹⁰ Aureos Capital Website: <http://www.aureos.com/our-funds/africa-funds.php#>

¹¹ <http://www.gdrc.org/icm/country/Kenya-finalreport.pdf>; MFI Consultant

primary agricultural producer and marketing cooperative societies, also involved in providing credit countrywide. There are approximately 3.8 million Kenyans depending entirely on financial NGOs, cooperatives, and the Kenya Post Office Savings Bank for financial service services.

The Informal System that is not regulated and not subsidized without any access to the formal financial system in Kenya. Participants in this system are economically active people who rely on a variety of traditional and informal financial systems. These systems involve savings transactions and tend to be membership based. There are three distinct financial arrangements under this system: relatives and friends, traditional money lenders and Rotating Savings and Credit Associations (ROSCAs);

The Formal, non-Subsidized System that is regulated and covers its costs. These institutions include the Kenya Post Office Bank, K-Rep Bank, Family Bank, Equity Bank and the Cooperative Bank of Kenya. The Cooperative Bank has traditionally served a different clientele from the other banks. It provides banking facilities to its member cooperatives. It is also running a credit program for MSEs.

The Formal, Subsidized system, which receives financial support from foreign aid agencies or donors. The Microfinance programs that they operate are mostly not regulated and are subsidized although some are now operating on a semi-commercial basis. The organizations in this system range from small charitable units operating in a limited geographical area, to large institutions carrying out a variety of development and welfare activities. Some of the larger MFIs in this category include Kenya Women Finance Trust (KWFT), Faulu Kenya, Jamii Bora, and SMEP among others. Several of these institutions are in the process of preparing to transform under the MFI Act 2006.

The key players in the provision of microfinance in Kenya include:

Microcredit Organizations

There are hundreds of microcredit institutions which provide credit to nearly one million low-income households and enterprises

Savings and Co-operative Societies (SACCOs)

The Kenya SACCO sector is the largest in Africa. SACCOs control assets estimated at over Kshs 150 bn. (USD 2.2 bn.) and provide financial services to an estimated 11% of the population.

c) Commercial Banks

Five commercial banks actively offer microfinance services in Kenya. These include Equity Bank, Kenya Commercial Bank, Co-operative Bank, K-Rep Bank, and Family Finance Bank.

d) Rotating and Accumulating Savings and Credit Associations

The informal segment of the Microfinance landscape in Kenya is dominated by numerous Rotating and Accumulating Savings and Credit Associations (ROSCAs and ASCAs)

According to a study conducted in 2006 by the Financial Sector Deepening (FSD) and partners referred to as the Finaccess study, about 38 per cent of adult Kenyans are unserved by the financial system indicating a huge market potential for the microfinance industry. The study shows that only 19 per cent of Kenyans are served by formal financial sector, namely commercial banks and the Kenya Post Office Savings Bank, while about 15 per cent are served by semi-formal financial service providers such as microfinance institutions (MFIs) and Savings and Credit Co-operatives societies (SACCOs) and the remaining 50 per cent are served by informal financial service providers ranging from Accumulating and Rotating Savings and Credit Associations (ASCAs and ROSCAs) to shopkeepers and money lenders.

This sector is competitive and is susceptible to intense competition because the barriers to entry are not a major deterrent. The success and viability of the sector has been exemplified by Equity Bank, K-REP, Family Bank, Kenya Woman Finance Trust among others. These financial institutions not only maintain a broad focus on banking the poor in the society but some of them have also reached up market and across the market to other segments. Other players such as Faulu, Kenya Women Finance Trust (KWFT) and Small and Medium Enterprise Program (SMEP) are aggressively active in this sector and as such the sector can be described as competitive.

Microfinance Institutions

Microfinance is the provision of a wide range of financial services and products ranging from savings credit facilities, money transfer and micro insurance to the economically active poor, low-income households and Small and Micro Scale Enterprises (SMEs) in both rural and urban areas, using innovative delivery methodologies and channels (CBK, BDS Report, 2007). Microfinance plays a key role in increasing access to financial services and products thus empowering households improve their welfare and manage risks. It ultimately contributes to poverty reduction.

Microfinance is provided by a variety of institutions of different institutional forms that can be clustered into three broad categories, namely: Formal {commercial banks and Kenya

Post Office Savings Bank (KPSOB)}, Semi-formal {Savings and Credit Co-operatives (SACCOs and Microfinance Institutions (MFIs)} and informal institutions such as Accumulation and Rotating Savings and Credit Associations (ASCAs and ROSCAs), shopkeepers and money lenders.

According to the CBK as at 31st December 2007, there were 4 mainstream commercial banks undertaking microfinance business in Kenya, namely: Equity Bank, Co-operative Bank, K-REP Bank and Family Bank. The CBK notes that the number of commercial banks involved in microfinance, though still small, is growing and the current ones are increasing their microfinance portfolio rapidly. This sector is witnessing a lot of interest from the commercial banks with a number of them down-streaming.

As at 31st December 2007, there were 5,122 registered SACCOs with an estimated 3.3 million members (CBK, BDS Report, 2007). The number of MFIs countrywide is largely unknown. However, the Association of Microfinance Institutions (AMFI), as at 31st December 2007, had a membership of 34 institutions comprising of NGOs, companies, trusts, societies, and commercial banks, among others (AMFI, 2008). Twenty one of these institutions were retail Microfinance Institutions with an aggregate of 742 outlets with 2,494 staff; and a loan portfolio of Ksh 4.261 billion. These institutions had an estimated 1.1 institutional savers and 250,000 borrowers.

Major players in the Kenya microfinance sector include commercial banks such as Equity Bank and K-Rep Bank which are increasingly expanding their country branch networks, as well as the Kenya Post Office Savings Bank which serves over 1.8 million clients but only provides savings and money transfer facilities. Kenya Women's Finance Trust (KWFT) will also join the ranks of commercial banks as it is set to conclude its transformation by the end of 2008.

A number of MFIs are in the transformation process into regulated deposit-taking institutions under the new Microfinance Act, including Faulu Kenya, KWFT, KADET, Jamii Bora, Sunlink, Wedco, and the Small and Medium Enterprise Programme (SMEP).

According to CBK, there is constrained access to financial services and products in Kenya, particularly amongst the economically active poor, low-income households and SMSEs in both rural and urban areas.

The CBK Report notes that the banking industry and KPOSB as at 31st December 2007 had about 4.4 million and 1.3 million savings accounts, respectively, while MFIs and SACCOs had about 1.1 million and 3.3 million savers respectively. This brought to about 10.1 million saving clients served by the formal and semi-formal financial service providers out of a total population of about 37.2 million Kenyans, translating to about 27 per cent of the total population.

The current trends are witnessing the “Mainstreamization” of microfinance. The emergence of a top tier of profitable MFIs is leading microfinance into the mainstream financial market. This has led to the “Upstreaming” of MFIs into the formal financial sector. Leading MFIs are maturing both financially and operationally, in many cases transforming into banks or formal financial institutions, as evidenced in the case of Equity Bank, Family Bank and K-REP Bank. They thus integrate into and become part of the formal financial sector. “Downstreaming” of commercial banks into microfinance has also been witnessed. Commercial banks have started entering the microfinance market themselves. They do so either directly by building their own retail business, or indirectly through partnerships with MFIs. Commercial banks bring infrastructure, professional practices, regulatory experience and lower cost of funds to the sector.