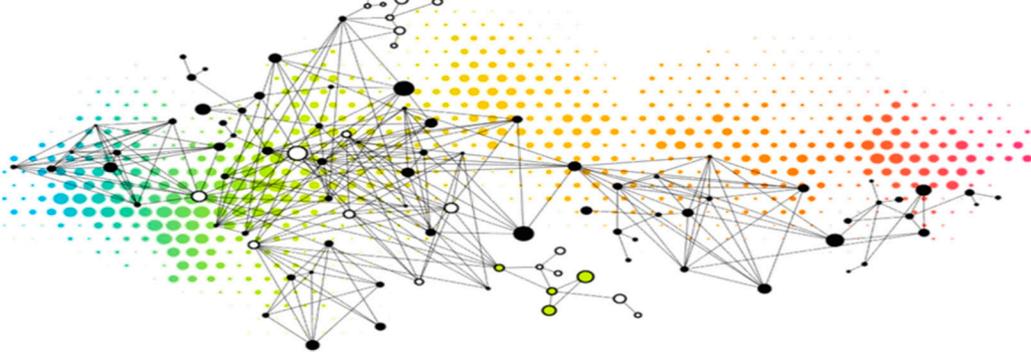# KENYA

TECHNICAL ASSISTANCE REPORT—MONETARY AND FINANCIAL STATISTICS MISSION (DECEMBER 3–14, 2018)

January 2020

This technical assistance report on Kenya was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member Kenya. It is based on the information available at the time it was completed in August 2019.

KENYA

REPORT ON THE MONETARY AND FINANCIAL STATISTICS MISSION (DECEMBER 3–14, 2018)

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Acronyms

BSA	Balance Sheet Approach
BSD	Banking Supervision Department, CBK
CBK	Central Bank of Kenya
CCD	Commissioner for Cooperative Development
CMA	Capital Markets Authority
FCS	Financial Corporations Survey
IFS	*International Financial Statistics*
IMF	International Monetary Fund
IRA	Insurance Regulatory Authority
KDIC	Kenya Deposit Insurance Corporation
MFB	Microfinance Bank
MFS	Monetary and Financial Statistics
MFSMCG	*Monetary and Financial Statistics Manual and Compilation Guide*
MMF	Money Market Fund
KSh	Kenyan Shilling
ODC	Other Depository Corporation
RBA	Retirement Benefits Authority
SACCO	Savings and Credit Cooperatives
SASRA	SACCO Societies Regulatory Authority
SRF	Standardized Report Form
STA	IMF's Statistics Department
TA	Technical Assistance
TWG	Technical Working Group

SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

1.   **A monetary and financial statistics (MFS) technical assistance (TA) mission visited Nairobi, Kenya, during December 3–14, 2018.**[1] The main objectives of the mission were to work with staff of the Central Bank of Kenya (CBK) to (i) review the implementation of the recommendations made by the MFS mission in January 2017; (ii) review the expanded coverage of the standardized report form for other depository corporations (SRF 2SR) including savings and credit cooperatives (SACCOs), microfinance banks (MFBs), and money market funds (MMFs); (iii) review the standardized report form for other financial corporations (SRF 4SR) comprising insurance companies and pension funds; (iv) review the adequacy of the available data for the remaining institutions in the other financial corporations (OFCs) subsector and adaptation of reporting forms to allow the expansion of the coverage of SRF 4SR; and (v) provide three-day training on the compilation of MFS for staff of the CBK and other financial sector regulatory authorities. In collaboration with staff of the CBK, the mission delivered these objectives and agreed with the authorities on an action plan to improve MFS in Kenya. The improvement of MFS contributes to enhancement of policy analysis and decision-making by the CBK.

2.   **In discussion with staff of the CBK, the mission reviewed the progress in the implementation of the recommendations made by the previous MFS mission**. At the time of the latest mission which took place in 2017, the CBK compiled and reported 1SR and 2SR mainly comprising commercial banks to IMF's Statistics Department (STA). Since then, significant progress has been made. In particular, the CBK (i) started to receive regular submission of source data from the other financial sector regulatory authorities with a view to expand the coverage of 2SR and develop 4SR; (ii) compiled provisional data for 2SR with the expanded coverage to include SACCOs and MFBs; (iii) developed provisional data for 4SR comprising insurance companies and pension funds; (iv) submitted to STA for review the provisional data for 2SR and 4SR; and (v) formed a technical working group on MFS comprising staff of the CBK and other financial sector regulatory authorities.

3.   **The mission found that the CBK had made significant progress in collaborating with other financial sector regulatory authorities by forming the Technical Working Group (TWG) and holding regular meetings**. Following a recommendation made by the previous mission to organize meetings with staff of other regulatory authorities, the CBK jointly with other regulatory authorities established the technical working group in January 2018 which meets

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[1] The mission would like to thank staff of the CBK, particularly of the MFS section of Research Department's Statistics Division, for their excellent support and hospitality during the visit.

quarterly to improve on quality and timely submission of monetary data.[2] In conjunction with the fourth regular TWG meeting, the mission provided a three-day training on MFS, in particular regarding the importance of MFS and its analytical uses including the balance sheet approach (BSA).[3] The training was well received by participants and the mission found especially important and efficient this occasion which provided a platform where data issues raised by the mission were immediately addressed by staff of relevant regulatory authorities. The mission emphasized the importance of TWG and its regular meeting to further improve monetary data as cooperation and collaboration among staff of different regulatory authorities are imperative for the compilation of MFS, especially in the OFCs sector.

4.   **The mission assessed that the provisional monetary data for the expanded 2SR and the 4SR compiled by the CBK were broadly in accordance with the methodology set out by the *Monetary and Financial Statistics Manual and Compilation Guide* (*MFSMCG*)**. Nonetheless, the mission found some minor methodological issues such as misclassification of institutional sectors and financial instruments in source data provided by other regulatory authorities. Those issues need to be addressed before finalizing the data for 2SR and 4SR to be reported regularly to STA for publication in the *International Financial Statistics (IFS)*.

5.   **The mission assessed that the CBK could expand further the coverage of monetary data for the SRFs**. The coverage of monetary data can be expanded to include investment funds. The CBK had already collected source data for investment funds from their regulatory authority, the Capital Markets Authority (CMA), to review the adequacy of the source data. The CBK found some inconsistencies in source data, which would be addressed by the CMA. Once the adequacy of the source data is confirmed, the CBK could start incorporating investment funds in monetary data. According to the *MFSMCG*, investment funds should be divided into MMFs and non-MMF investment funds; MMFs should be included in the other depository corporations (ODCs) sector and their liabilities (MMF shares) held by the money-holding sectors should be included in broad money while non-MMF investment funds should be classified as OFCs.

6.   **To support progress in the above work areas, the mission recommended a detailed action plan with the following priority recommendations**. Further details can be found in the section *Detailed Technical Assessment and Recommendations*.

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[2] TWG members include staff from the Retirement Benefit Authority (RBA), the Insurance Regulatory Authority (IRA), the SACCO Societies Regulatory Authority (SASRA), the CMA, the Kenya Deposit Insurance Corporation (KDIC), the Kenya National Bureau of Statistics, and the CBK.

[3] The fourth TWG meeting took place in Naivasha, Kenya (about 90 km from Nairobi).

Table 1. Priority Recommendations		
Target Date	**Priority Recommendation**	**Responsible Institutions**
Ongoing	Continue to organize TWG's meetings on a regular basis; cooperate and collaborate further with other financial sector regulatory authorities to improve the compilation of MFS.	**CBK**
December 2019	Finalize provisional data for 2SR with the coverage extended to include SACCOs and MFBs to be submitted to STA for review; regularly report revised 2SR to STA.	**CBK**
December 2019	Finalize provisional data for 4SR comprising insurance companies and pension funds to be submitted to STA for review; regularly report 4SR to STA for publication in the *IFS*.	**CBK**

THE FINANCIAL SYSTEM IN KENYA

7.   The CBK, the central bank, established by an Act of Parliament of March 24, 1966, performs the classic functions of a central bank. It formulates monetary policy and regulates the banking financial institutions. The total assets of the CBK amount to KSh 1,064 billion (about 12 percent of GDP) as of September 2018.

8.   Commercial banks dominate the financial system in Kenya. As of September 2018, 41 commercial banks—including 2 under receivership and 1 mortgage finance company—are present in the country. Their total assets amount to KSh 4,933 billion, equivalent to USD 48.4 billion, accounting for about 70 percent of total assets of the financial system excluding the central bank. One hundred seventy-four deposit-taking SACCOs and 13 deposit-taking MFBs also operate in the ODCs sector, with total assets of KSh 487 billion and KSh 79 billion, respectively. Twenty MMFs are active, with total assets of KSh 46 billion.

9.   In the OFCs sector, pension funds and insurance companies play a dominant role, followed by non-deposit-taking SACCOs. One thousand two hundred seventy-seven pension funds operate in the country with total assets of KSh 949 billion. Fifty-six insurance companies operate in the country—comprising 15 life insurance, 28 general insurance, 9 composite insurance, and 4 reinsurance companies— with total assets of KSh 625 billion, of which life insurance companies account for over 60 percent. Two thousand two hundred eighty-six non-deposit-taking SACCOs also operate in the OFCs sector with total assets of KSh 153 billion, although the coverage is not universal as of end 2017. Sixteen non-MMF investment funds operate in the country, with total assets of KSh 11.6 billion.

Table 2. The Financial Corporations Sector _(KSh billion, September 2018)_				
Financial Corporation (FC) Sub-Sector	**Asset size**	**No. of Institutions**	**Percent of asset size to total subsector assets**	**Percent of asset size to total financial sector assets**
Central Bank of Kenya	1,063.6	1	19.2%	12.7%
Other Depository Corporations				
Commercial Banks	4,932.8	41	89.0%	59.1%
SACCOs	487.5	174	8.8%	5.8%
Microfinance Banks	78.6	13	1.4%	0.9%
Money Market Funds	46.2	20	0.8%	0.6%
Total	5,545.1	248	100.0%	66.4%
Other Financial Corporations				
Pension Funds	**949.1**	**1277**	**54.6%**	**11.4%**
Insurance Corporations	**625.0**	**56**	**35.9%**	**7.5%**
Life Insurance	392.0	15	22.5%	4.7%
Non-life Insurance	233.0	41	13.4%	2.8%
Non-MMF Investment Funds	**11.6**	**16**	**0.7%**	**0.1%**
Other Financial Intermediaries except ICPFs	**153.2**	**2286**	**8.8%**	**1.8%**
Non-Deposit-Taking SACCOs	153.2	2286	8.8%	1.8%
Financial auxiliaries	**0.0**	**76**	**0.0%**	**0.0%**
Foreign Exchange Bureaus	n.a.	73	n.a.	n.a.
Credit Reference Bureau	n.a.	3	n.a.	n.a.
Total	1,739.0	3711	100.0%	20.8%
Total Assets	**8,347.6**	**3960**		**100.0%**

Source: CBK.

Note: Commercial banks include one mortgage finance company. Non-life insurance includes general, composite and reinsurance. Investment Funds and Non-Deposit-Taking SACCOs (their coverage is not universal) are as of June 2018 and end 2017, respectively.

10.   The financial corporations sector in Kenya is regulated by several different regulatory authorities. The CBK regulates the banking institutions and MFBs. Other financial sector regulatory authorities supervise other financial institutions. In the ODCs sector, the SACCO Societies Regulatory Authority (SASRA) regulates SACCOs. In the OFCs sector, the Retirement Benefits Authority (RBA) regulates pension funds while the Insurance Regulatory Authority (IRA) regulates insurance companies. Separately, the CMA regulates investment funds.

DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

A. Technical Working Group

11.   The previous missions recommended that the CBK improve coordination with other regulatory authorities to cooperate and collaborate on the compilation of MFS. As the non-banking financial sector in Kenya was regulated by authorities other than the CBK, it was imperative for the CBK to coordinate with other regulatory authorities to compile the monetary data for financial subsectors not covered by the CBK. Despite series of bilateral meetings between the CBK and each of the other regulatory authorities facilitated by the previous missions, significant progress to include their data in monetary data for 2SR and 4SR had not

been made due to lack of regular reporting of source data for the compilation of MFS. In this regard, the previous mission in 2017 recommended that the CBK organize more meetings with regulatory authorities for the provision of their data for MFS compilation purposes to the CBK, possibly by using a memorandum of understanding.

12.   In response, in January 2018, the CBK formally established the TWG for MFS to improve the quality and submission timeliness of the monetary data. Following a meeting among heads of participating regulatory authorities in December 2017 which promoted mutual understanding of MFS at the management level, the CBK officially established the TWG jointly with other regulatory authorities, with terms of reference stating key elements including its mandate, objectives, membership, and expected results.

13.   Endorsed by the heads of regulatory authorities, staff of TWG members have held a regular meeting quarterly and have significantly enhanced improvement of the quality and frequency of its members' monetary data. Since the inception of the TWG, the CBK has started to receive source data for MFS regularly which were improved in quality and frequency, enabling those data to be included in 2SR and 4SR. To extend the coverage of 2SR, source data for SACCOs have been provided by the SASRA; to develop 4SR, source data for insurance companies and pension funds have been provided by the IRA and the RBA, respectively. With those source data, the CBK has produced provisional data for expanded 2SR and 4SR which were submitted to STA for review.

14.   In conjunction with the fourth regular TWG meeting, as requested by the TWG, the mission provided three-day training on the MFS methodology and analytical uses, including the BSA. The training was well received and helped participants gain better understanding of the value of submitting their respective source data to the CBK for the compilation of MFS. The training also proved to be an excellent platform for the discussion and resolution of outstanding data issues among the participants. The mission was able to clarify classification of financial instruments and institutional sectors; and to identify work necessary for further improvement of source data during the training session. This opportunity was deemed as exceptionally useful and efficient given that the previous missions had to hold multiple meetings bilaterally with each of the regulatory authorities to resolve data provision and methodological issues.

15.   Presenting the BSA matrix served as an effective means to help the training participants appreciate the availability of source data for MFS and their analytical uses. The BSA matrix combines the balance sheets of an economy's main sectors such as the financial, government, nonfinancial corporate sector, and the external sector succinctly in a single matrix providing a from-whom-to-whom view of those sectors in aggregate data. The BSA matrix is an important and convenient analytical framework for the IMF to analyze sectoral interlinkages and vulnerabilities of its surveillance and policy advice. The mission emphasized that IMF member countries could also use the BSA matrix for their own policy analyses and decision-making purposes. The BSA matrix enabled the participants to easily visualize

interlinkages of each of their sectors with the others and critical data gaps of their sectors if applicable. The participants recognized through the training provided by the mission the benefits of providing their source data of sectors under their regulation for the compilation of MFS. Now that the participants understood the value of data provision, the mission was confident that even stronger cooperation and collaboration would be forthcoming from the TWG members.

16.   **The arrangement such as the TWG in Kenya to promote cooperation and collaboration among regulatory authorities for the compilation of MFS is effective and would serve as a successful model case for other countries**. In many countries, the compilation of MFS beyond the coverage of commercial banks poses a significant challenge to the central bank as an MFS compiler due to lack of cooperation and collaboration from other financial sector regulatory authorities with respect to the provision of source data. In this regard, the mission emphasized the importance of the TWG and its regular meeting to further improve monetary data as cooperation and collaboration among staff of regulatory authorities are imperative for the compilation of MFS and further improvement. This would serve as a successful model case for other countries which suffer from lack of cooperation and collaboration from other financial sector regulatory authorities.

17.   *Recommended Action*: Continue to organize TWG's meetings on a regular basis; cooperate and collaborate further with other financial sector regulatory authorities to improve the compilation of MFS.

B.   Other Depository Corporations Accounts

Source Data

18.   **At the time of the last MFS mission in 2017, the CBK compiled and reported regularly to STA monetary data for 2SR comprising 41 commercial banks including one mortgage finance company**. The 2017 mission recommended that the CBK expand the coverage of 2SR to include deposit-taking SACCOs and MFBs. While the provision of source data for deposit-taking SACCOs to the CBK had been one of the major issues, officials of SASRA, the regulatory authority of SACCOs, promised to provide monthly data starting from January 2017 with detailed enough sectoral breakdown for the compilation of MFS during 2017. As for MFBs, the CBK, the regulator of MFBs, regularly collected source data for MFBs through monthly financial statements and profit and loss accounts.

19.   **Since then, in conjunction with the formation of the TWG, the CBK has made significant progress and started to regularly receive source data for deposit-taking SACCOs**. The source data for deposit-taking SACCOs are in monthly frequency and reported to the CBK by the SASRA within 20 days after the end of the reference period. The source data for MFBs are also in monthly frequency and reported directly to the CBK by MFBs within 10 days after the end of the reference period, the same timeliness as commercial banks.

Provisional Data

20.   With source data available for deposit-taking SACCOs and MFBs, the CBK made significant progress in producing initial provisional data for 2SR with the coverage expanded to include those data which were reported to STA for review in August of 2017. After incorporating feedback by STA, the CBK made further progress to improve the provisional data for 2SR in terms of classification of counterpart sectors and financial instruments by gathering more detailed information on source data.

21.   With its intention to finalize the provisional data, the mission found that the provisional data for 2SR expanding the coverage to include deposit-taking SACCOs and MFBs are broadly in accordance with the methodology set out by the *MFSMCG*. Nonetheless, the mission found some minor methodological issues in source data for SACCOs: (i) transferable deposits (assets) were in part misclassified as other deposits; (ii) prepayment of insurance (assets) was in part misclassified as other prepayments; (iii) other securities (assets) issued by other depository corporations were in part misclassified as by public nonfinancial corporations; and (iv) loans (assets) for households were in part misclassified as other nonfinancial corporations (Appendix II). The mission also found that data for SACCOs were not included in 2SR prior to January 2015. Thus, the mission recommended that the CBK correct the misclassification of counterpart sectors and financial instruments in source data provided by the SASRA and include data for SACCOs in 2SR. With those issues addressed, regular data provision by TWG members enables the CBK to report expanded 2SR to STA on a regular basis for publication in *IFS*.

22.   Inclusion of deposit-taking SACCOs and MFBs will have a significant impact on the monetary data for the ODCs sector. As of September 2018, total assets of deposit-taking SACCOs and MFBs amount to KSh 487.46 billion and KSh 78.63 billion respectively, accounting for 9.9 percent and 0.9 percent of commercial banks' total assets, respectively. Deposits included in broad money of deposit-taking SACCOs and MFBs amount to KSh 328.50 billion and KSh 40.14 billion respectively, accounting for 11.2 percent and 1.4 percent of commercial banks' deposits respectively.

23.   *Recommended Action*: Correct misclassification of counterpart sectors and financial instruments, and include data for SACCOs prior to January 2015 in 2SR; submit revised provisional data to STA for review

24.   *Recommended Action*: Finalize by incorporating STA's feedback and report regularly revised 2SR to STA.

25.   During the process of expanding the coverage of 2SR, the CBK has been compiling the provisional data for 2SR monthly in parallel with compiling and reporting the existing 2SR to STA for publication in *IFS*. This parallel compilation of two different data sets of 2SR has increased the workload of the MFS compilers. The earliest possible completion of expanding the

coverage would be desirable. Once finalizing the extension of the coverage for 2SR, the CBK will be able to streamline the compilation of 2SR by terminating the compilation of the existing 2SR.

Historical Data

26.   Ideally, historical data should be included in monetary data for 2SR for the longest periods possible. Source data for SACCOs are available annually starting from 2011, quarterly starting from March 2014, and monthly starting from January 2017. The previous mission recommended that the CBK include data for SACCOs starting from the beginning of 2014. As only quarterly data are available for the period between 2014 and 2016, the estimation method of interpolation is applied for monthly periods in-between quarters. As for MFBs, source data are available only starting from January 2015. Thus, starting data periods for SACCOs and MFBs are January 2014 and January 2015, respectively.

Banks in Liquidation

27.   The previous missions recommended that the CBK include banks in liquidation for the compilation of MFS. As detailed data for the compilation of MFS had not been available, the previous missions had met with officials from Kenya Deposit Insurance Corporation (KDIC) for the possibility of receiving such data.[4] KDIC officials indicated that they would be able to collect appropriate information which would be reported to the CBK.

28.   Since then, the KDIC provided the CBK with trial balance data for each of 17 commercial banks in liquidation as of January 2018. In aggregate, total assets of all banks in liquidation amount to KSh 84.6 billion, accounting for 1.9 percent of commercial banks' total assets. Loans outstanding account for 3.1 percent of commercial banks' loans. Deposits account for 0.45 percent of commercial banks' deposits both included in and excluded from broad money; and 0.51 percent of commercial banks' deposits included in broad money.[5]

29.   However, the mission found that trial balance data provided by the KDIC were not detailed enough for the compilation of MFS. While trial balance data provide detailed enough information on financial instruments, they do not provide detailed enough information on sectoral breakdown. For example, while information on deposits and loans is identified, counterpart sectoral information is not available for the compilation of MFS. This indicates that some estimation methods need to be applied to breakdown information by counterpart sector.

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[4] Banks in liquidation or reorganization continue to have claims on various sectors of the economy, which eventually may be transferred to restructuring agency or may be acquired by other banks. To avoid distortion in the monetary statistics during the restructuring process, the *MFSMCG* recommends that banks in liquidation continue to be included in the ODCs sector as long as they own financial assets and liabilities. Separate data on their accounts should be presented as memorandum items accompanying dissemination of monetary data.

[5] Deposits of banks in liquidation in the amount of KSh 13.7 billion as of January 2018 would have to be classified as deposits excluded from broad money if data on banks in liquidation were included in the compilation of MFS as the depositors' withdrawal demands cannot be met. However, after the completion of liquidation process, if those deposits were acquired by the existing commercial banks in 2SR and included as deposits included in broad money, the maximum impact would be to increase 0.51 percent of broad money in the economy.

One such method would be to use sectoral information of the latest data observation available before the start of the liquidation process. However, the mission was informed of some challenges associated with this estimation method as some banks were in the liquidation process for a long time, dating back to the 1990s.

30. ***Recommended Action***: Assess the feasibility of including data for banks in liquidation in 2SR using appropriate estimation methods.

C. Other Financial Corporations Accounts

Source Data

31.   The previous missions recommended that the CBK develop 4SR comprising insurance companies and pension funds. However, similarly to the case for deposit-taking SACCOs in 2SR, regular provision of source data for insurance companies and pension funds by the IRA and the RBA respectively had been one of the major issues. At the time of the 2017 mission, quarterly source data had been provided by both authorities, but not on a regular basis. Data were also missing for some historical data periods and did not have a detailed enough sectoral breakdown. Thus, the 2017 mission recommended the improvement of data quality and timeliness.

32.   Since the last mission in 2017, in conjunction with the formation of the TWG, the CBK has made significant progress and started to regularly receive source data for insurance companies and pension funds. The source data for insurance companies and pension funds are in quarterly frequency and submitted regularly to the CBK by the IRA and the RBA, respectively, within two quarters after the end of the reference period. The regular and timely provision of source data enables the CBK to regularly compile data for 4SR.

Provisional Data

33.   With the provision of source data by the IRA and the RBA, the CBK made significant progress in producing initial provisional data for 4SR comprising insurance companies and pension funds which were reported to STA for review in August 2017. After incorporating feedback by STA, the CBK made further progress to improve the provisional data for 4SR in terms of classification of counterpart sectors and financial instruments by gathering more detailed information on source data.

34.   With its intention to finalize the provisional data, the mission found that provisional data produced by the CBK for 4SR comprising insurance companies and pension funds were broadly in accordance with the methodology set out by the *MFSMCG*. Nonetheless, the mission found that pension funds' holdings of debt securities issued by central government were in part misclassified as by public nonfinancial corporations, and thus recommended that the CBK correct the misclassification of counterpart sectors in the source data for pension funds provided by the RBA (Appendix II). In addition, guaranteed funds should be

excluded from data for pension funds to avoid double counting as described in the following paragraph. With those issues addressed, regular data provision by TWG members enables the CBK to report 4SR to STA on a regular basis for publication in *IFS*.

35.   Pension funds provide a pension scheme called guaranteed funds which guarantees a minimum rate of return to the beneficiaries. In a contract with insurance companies, pension funds designate insurance companies as fund managers of guaranteed funds responsible for implementing the funds' investment strategy and managing the trading of the portfolio. The mission confirmed that data for guaranteed funds are reported to the CBK by both pension funds and insurance companies; thus, including data for guaranteed funds in the compilation of MFS without adjustment would be double counting. Insurance companies take the entire risks and rewards for the performance of guaranteed funds; they are responsible for any shortfalls below the guaranteed rate in exchange for the right to retain any excesses above the guaranteed rate. In this regard, data for guaranteed funds should be excluded from data for the pension funds subsector when compiling the 4SR.

36.   *Recommended Action*: Correct misclassification of counterpart sectors for 4SR and exclude data for guaranteed funds from the pension funds subsector when compiling 4SR; and submit revised provisional data for 4SR to STA for review.

37.   *Recommended Action*: Finalize by incorporating STA's feedback and report regularly revised 4SR to STA for publication in *IFS*.

38.   *Recommended Action*: Compile and disseminate data on the other financial corporations survey and the financial corporations survey on the CBK's website and in other publications.

Historical Data

39.   Ideally, historical data should be included in monetary data for 4SR for the longest periods possible. Source data for insurance companies are available quarterly starting from March 2014 and no source data prior to that is available in any frequency. In contrast, source data for pension funds are available semi-annually starting from end 2001 until end 2014, and quarterly starting from 2015 with missing data for March 2015 and March 2016. Considering the availability of source data for both insurance companies and pension funds, the previous missions recommended that the CBK include historical data for 4SR starting from the beginning of 2014. As only semi-annual data are available for pension funds during 2014 and data for March 2015 and March 2016 are missing, the estimation method of interpolation is applied for those missing quarterly data periods.

D. Further Expansion of the Coverage

Investment Funds

40.   The mission reviewed the adequacy of the available data for investment funds as one of the remaining OFCs subsectors to allow the expansion of the coverage of SRF 4SR. The previous missions found that the CMA collected balance sheet data for investment funds which were made available to the CBK. Given their relatively small size compared with commercial banks, pension funds and insurance companies, the 2017 mission suggested that data for investment funds not be included in the compilation of MFS at that time. Nonetheless, since then, considering the implication of investment funds for broad money with its still relatively small size, the management of the CBK had decided to include data for investment funds in the compilation of MFS.

Money Market Funds

41.   Among 36 investment fund institutions currently operating in the country, 20 of them offer MMFs to the investors. Detailed balance sheet data of all investment funds for the compilation of MFS are available and data for end 2017 have been provided by the CMA to the CBK for its review. According to those data, MMFs play a predominant role in the investment funds industry, accounting for about 80 percent of its total assets.

42.   The *MFSMCG* recommends that investment funds be divided into MMFs and non-MMF investment funds, and that MMFs be classified under the ODCs sector if their liabilities are a close substitute for transferable and other deposits. In addition, the *MFSMCG* recommends that as MMF shares are highly liquid and typically a reliable store of value, they be included in broad money if held by the money-holding sectors. In this regard, the counterpart sectoral information is imperative for MMF shares to be included in broad money, as the clear distinction between the money-holding sector and the money-issuing sector needs to be made. Reviewing reported data for those MMFs, the mission assessed that they should be included in the ODCs sector and provide detailed enough sectoral information.

43.   While balance sheet data for MMFs provided detailed information on instrument and sector breakdown for the compilation of MFS, the CBK found data inconsistencies between total assets and total liabilities. The CBK requested that the CMA investigate those inconsistencies as well as any remaining data issues and use reporting forms to provide the aggregate data over all investment funds institutions. The reporting forms which were developed by the previous missions and further refined by the CBK would provide detailed information on instrument and sector breakdown for the compilation of MFS. The mission assessed that the reporting forms were broadly adequate for the compilation of MFS except for some minor adjustments.

44.   Agreed with the CMA, the CBK expects to start regularly receiving quarterly data for investment funds including MMFs beginning with data for the fourth quarter of 2018

via the reporting forms. Once the regular reporting starts, the CBK needs to review the quality of data for investment funds provided by the CMA in the reporting forms for the first few quarters. The CBK also needs to assess the timeliness of receiving data from the CMA to allow the compilation and reporting of 2SR and 4SR to STA within three quarters after the reference period. Once deemed adequate, data for MMFs and non-MMF investment funds are included in 2SR and in 4SR, respectively.

45.   ***Recommended Action***: Assess the adequacy of data for MMFs reported by the CMA to be included in the ODCs sector and in broad money.

46.   ***Recommended Action***: Assess the adequacy of data for non-MMF investment funds reported by the CMA to be included in the OFCs sector.

47.   Eventually, monthly data for MMFs need to be included in the ODCs sector and in broad money. While quarterly data for MMFs are initially provided by the CMA, monthly data are eventually needed for the inclusion in 2SR and in broad money as the required data frequency of 2SR is monthly. In addition, the timeliness needs to be in line with other ODCs subsectors—within 10 days after the end of the reference month for commercial banks and MFBs, and within 20 days for deposit-taking SACCOs. If only quarterly data are available, some estimation methods such as interpolation need to be applied to fill the gap in months between the quarterly periods.

48.   ***Recommended Action***: Assess the feasibility to receive monthly data for MMFs with an appropriate timeliness from the CMA to be classified in the ODCs sector and in broad money.

49.   ***Recommended Action***: Until monthly data become available, compile monthly 2SR including MMFs based on quarterly data, using appropriate estimation methods.

Non-Deposit-Taking SACCOs

50.   The previous MFS missions in 2015 and 2016 discussed the possibility to include non-deposit-taking SACCOs in monetary data. Unlike deposit-taking SACCOs, non-deposit-taking SACCOs do not accept savings deposits, but do accept term and non-withdrawable deposits. They provide loans to their members and a few other financial services. At the time of the previous missions, no information was available to be able to assess their size including total assets and deposits as non-deposit-taking SACCOs institutions did not regularly report their balance sheet data to the Commissioner for Cooperative Development (CCD), the regulatory authority of non-deposit-taking SACCOs.[6]

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[6] Both deposit-taking and non-deposit-taking SACCOs used to be under the supervision of the CCD. Following the SACCO Societies Act of December 2008, the SASRA was established and began its operations in June 2010 to supervise deposit-taking SACCOs. While the SASRA started to license deposit-taking SACCOs in 2011, non-deposit-taking SACCOs remained under the supervision of the CCD.

51.   The mission found that some balance sheet data albeit sparse for the non-deposit-taking SACCOs had recently become available. With assistance of the SASRA, the CCD recently made available some information on non-deposit-taking SACCOs including number of institutions, total assets, deposits and loans, as of end 2017. While the coverage of information is not universal, at least 2,286 non-deposit-taking SACCOs institutions actively operate in the country with total assets of KSh 153.22 billion or 34 percent and 3.4 percent of deposit-taking SACCOs and commercial banks respectively. Deposits and loans amount to KSh 117.50 billion and 118.22 billion respectively, accounting for 3.8 percent and 4.6 percent of commercial banks respectively. Given their relatively large size, the mission recommended that the CBK pursue further collecting more detailed balance sheet data for non-deposit-taking SACCOs to assess the feasibility to include them in the monetary data in cooperation with the SASRA.

52.   *Recommended Action*: Collecting detailed balance sheet information on non-deposit-taking SACCOs to assess the feasibility to include them in the monetary data.

Non-Deposit-Taking MFBs

53.   The CBK does not currently collect source data for non-deposit-taking MFBs. The non-deposit-taking MFBs sector has been growing rapidly in recent years and become a significant part of the credit providing financial sector especially for small and medium size enterprises. However, source data for this sector is currently not available. The mission suggested that the CBK continue to monitor the activities of non-deposit-taking MFBs and investigate the availability of source data for non-deposit-taking MFBs to be included in 4SR.

E.   Future Technical Assistance

54.   Regarding the implementation of the recommendations set out in this report, the mission is of the view that the CBK has the resources to accomplish short-term objectives. The most important and immediate objective is to finalize the provisional data for the expanded 2SR and the 4SR which requires relatively minor adjustments including correcting misclassification of financial instruments and sectors. While some tasks of correcting misclassification are required by other regulators, cooperation and collaboration by TWG members have already been established since the formation of the TWG.

55.   However, the CBK will face an additional set of tasks to implement the medium-term recommendations. Collecting, reviewing, and mapping data for investment funds, especially MMFs, to be included in the monetary data will require a new set of tasks in addition to the current regular operations for data collection and production. In addition, investigating the feasibility to include data for banks in liquidation in 2SR and data for non-deposit-taking SACCOs will take up additional resources.

56. **STA stands ready to support the CBK in completing the forthcoming tasks detailed in the action plan below**. One way for STA to assist the CBK is to provide remote TA from the IMF's headquarters in Washington, D.C. In addition, if needed and requested, a follow-up on-site TA mission could be considered, depending on the progress made by the CBK in the implementation of recommendations and on the IMF's resource availability.

Table 3. Kenya: Mission's Recommendations		
Priority	**Action/Milestone**	**Target Completion Date**
Monetary and Financial Statistics		
Outcome: The CBK compiles a financial corporations survey that follows the methodology of the MFSMCG, covering the central bank, ODCs, and OFCs.		
H	Continue to organize TWG's meetings on a regular basis; cooperate and collaborate further with other financial sector regulatory authorities to improve the compilation of MFS. **Benchmark**	Ongoing
H	Correct misclassification of counterpart sectors and financial instruments, and mapping for 2SR; and submit revised provisional data to STA for review. **Benchmark**	September 2019
H	Finalize the provisional data for 2SR by incorporating STA's feedback; and report regularly revised 2SR to STA. **Benchmark**	December 2019
L	Assess the feasibility of including data for banks in liquidation in 2SR using appropriate estimation methods.	June 2020
H	Correct misclassification of counterpart sectors for 4SR and exclude data for guaranteed funds from the pension funds subsector when compiling 4SR; and submit revised provisional data for 4SR to STA for review. **Benchmark**	September 2019
H	Finalize the provisional data for 4SR by incorporating STA's feedback; and report regularly revised 4SR to STA for publication in *IFS*. **Benchmark**	December 2019
M	Compile and disseminate data on the other financial corporations survey and the financial corporations survey on the CBK's website and in other publications.	December 2019
M	Assess the adequacy of data for MMFs reported by the CMA to be included in the ODCs sector and in broad money.	June 2019
M	Assess the adequacy of data for non-MMF investment funds reported by the CMA to be included in the OFCs sector.	June 2019
M	Assess the feasibility to receive monthly data for MMFs with an appropriate timeliness from the CMA to be classified in the ODCs sector and in broad money.	December 2019
M	Until monthly data become available, compile monthly 2SR including MMFs based on quarterly data, using appropriate estimation methods.	December 2019
M	Collect detailed balance sheet information on non-deposit-taking SACCOs to assess the feasibility to include them in the monetary data.	June 2020
Priority scale (H – high; M – medium; and L – low).		

Appendix I. Officials Met by the Mission

Name	Institution
Mr. Raphael Owino	Ag. Director, Research Department
Dr. Lydia Ndirangu	Assistant Director, Statistics Division
Mr. Nelson Rutto	Manager, Statistics Division
Mrs. Christalina Abayo	Senior Bank Officer, Statistics Division
Mr. Cyrus Mugo	Bank Officer, Statistics Division
Ms. Elisheba Kamanda	Bank Officer, Statistics Division
Dr. Isaya Maana	Assistant Director, Monetary Policy Secretariat
Dr. Samuel Tiriongo	Senior Bank Officer, Monetary Policy Secretariat
Dr. Daniel Amanja	Assistant Director, External Analysis Division
Dr. Esman Nyamongo	Assistant Director, Real Sector Analysis Division

Appendix II. List of Misclassified Instruments and Sectors

Subsector	Time Period	Misclassification	Correct Classification
SACCOs	January 2016 and onward	Other deposits (assets)	Transferable deposits
SACCOs	January 2016 and onward	Other payments (assets)	Prepayment of Insurance
SACCOs	January 2014–February 2016	Other securities (assets) issued by public nonfinancial corporations	Other securities issued by ODCs
SACCOs	January 2014–February 2016	Loans (assets) for other nonfinancial corporations	Loans for households
Pension funds	March 2014–March 2016	Debt securities (assets) issued by public nonfinancial corporations	Debt securities issued by central government