

THE NATIONAL TREASURY & ECONOMIC PLANNING

THE REGULATORY IMPACT STATEMENT

IN THE MATTER OF PUBLIC PARTICIPATION ON:-

THE DRAFT PUBLIC FINANCE MANAGEMENT (FINANCIAL INCLUSION FUND) REGULATIONS, 2022

(1) **The main objective and reason for the proposed Public Finance Management (Financial Inclusion Fund) Regulations, 2022 are mainly to provide a regulatory framework to facilitate the Fund to innovate, develop and deploy bottom of the pyramid financial services and products that are affordable, accessible and appropriate for the unserved and underserved persons, including credit, saving, insurance and investment products. Specifically, the Regulations seek to:-**

- (a) promote financial inclusion through expanding access to credit by persons, proprietors, micro, small and medium enterprises, chamas, table banking groups, other groups, sacco societies, associations and start-ups for economic growth and job creation;
- (b) address the qualitative dimension of financial inclusion, in particular responsible lending and borrowing, ethical practices, consumer rights and financial literacy;
- (c) strengthen the financial and operational capacity of informal sector membership based financial institutions including SACCO societies, Chamas and table banking groups;
- (d) promote market interventions to improve supply of affordable credit to micro, small and medium sized enterprises (MSMEs) including creditworthiness-based lending, risk pricing, business and financial management skills, and cost of doing business;
- (e) address the low participation of the non-formal wage workforce, namely informal sector entrepreneurs and workers, smallholder farmers, pastoralists, fisherfolk and other self-employed in health insurance and retirement benefit schemes, for the purpose of achieving universal health coverage (UHC) and universal social security; and
- (f) Provide for Government counterpart funding for the savings for borrowers of the Fund.

(2) **The effect of the proposed Public Finance Management (Financial Inclusion Fund) Regulations, 2022 include the following:**

- (a) The implementation of the Presidential directive that the National Government will be expected to implement the Financial Inclusion (Hustlers) Fund through capitalization and by expanding access to credit by persons, proprietors, micro, small and medium enterprises, chamas, table banking groups, other organized groups, saccos, associations and start-ups for economic growth and job creation;
- (b) It is expected that enactment and implementation of these regulations will open up affordable credit facilities for those at the bottom of pyramid and boost the culture of savings and investment while creating momentum for sustainable development;
- (c) Facilitate the Government to provide capital to individuals and organized groups to enable them bridge the gap in accessing credit and while offering opportunity for savings and to provide pension products that will provide livelihoods in old age;
- (d) Regulations will facilitate Government to spur up savings and in turn invest these savings in Government Securities, thereby deepening the domestic debt market for purposes of economic development and poverty reduction;
- (e) The Regulations seek to Cushion the ordinary persons, micro-finance institutions, chamas, table banking groups, other organized groups, savings and credit co-operative organizations and associations from the frequent shocks arising from unpredictable income flows;
- (f) The Regulations have accorded Government an opportunity to facilitate achievement of the economic and social rights guaranteed in Article 43 of the constitution by addressing the low participation of the non-formal wage workforce, namely informal sector entrepreneurs and workers, smallholder farmers, pastoralists, fisherfolk and other self-employed in health insurance and retirement benefit schemes, for the purpose of achieving universal health coverage (UHC) and universal social security;
- (g) The Regulations have guarded against market distortions by ensuring that envisaged partnerships by the Fund, are not exclusive or preferential, are technology neutral and do not confer market advantage to any partners over competitors;

- (h) The implementation of the Regulations will enable the Government of Kenya to enhance economic participation of special interest groups and micro, small and medium enterprise in creation of jobs and general economic development; and
- (i) The Regulations have provided for the Fund shall leverage on existing commercial infrastructure, including mobile payments platforms and financial institutions, including agency, co-financing and on-lending partnerships. This approach will bring efficiency in administration of the Fund.

(3) **Possible alternative and practicable means of achieving the foregoing objectives, including other regulatory as well as non-regulatory options:**

- (a) An alternative to the proposed expansion of access to credit by persons, proprietors, micro, small and medium enterprises, chamas, table banking groups, other organized groups, sacco societies, associations and start-ups for economic growth and job creation through this Fund, is the use the existing Public Funds that apply fragmented approach where every segment of the targeted group is addressed separately. This is the approach the government has used over years and has not yielded the desired results. Thus, the proposed framework provides for a one stop shop for a variety of financial products;
- (b) The other alternative option implies retention of the status quo with regard to the existing methods of access to financial services and products in which case that are not affordable, accessible, appropriate and sometimes predatory, for the bottom of the pyramid segment of the population; and
- (c) Therefore, the alternatives do not provide for optimal way of achieving the intended objectives of reaching persons in the informal sector.

(4) **Assessment of the costs and benefits of the proposed Public Finance Management (Financial Inclusion Fund) Regulations, 2022 and of any other practicable means of achieving the same objectives;**

- (a) There are efficiencies arising from this regulatory instrument in access to non-distortionary and sustainable financial products that are affordable, low cost, low risk, and scalable to eligible persons. The Regulations simply provided for flexibility in coming up products for the bottom of the pyramid in the society, whilst leveraging on entrepreneurial spirit of Kenyans to achieve the respective objectives and purpose; and
- (b) The Fund roll out will leverage on the existing digital capacity in the economy and well structured commercial infrastructure, including mobile payments platforms and financial institutions, for enhanced effectiveness and efficiency towards the achievement of its Objectives.

5) **Any other matters specified by the guidelines;**

Overall, the net impact of the proposed regulatory rule is positive in enhancing financial inclusion. With these regulations, envisaged financial products will not remain a preserve of the formally employed but every willing Kenyan has opportunity to be part of the scheme offered by the fund. In addition the regulations have provided management of the Fund with flexibility to innovate, design and implement appropriate products while leveraging on existing financial systems.

(6) **Draft copy of the proposed statutory rule.**

Draft copies of the proposed these Regulations have been posted to the National Treasury website www.treasury.go.ke; Ministry of Co-operatives and Micro, Small and Medium Enterprises Development website www.ushirika.go.ke; State Department for Trade Website www.trade.go.ke; and Micro and Small Enterprises Authority website www.msea.go.ke

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