

## TALKING POINTS FOR THE CS/ NT & EP DURING THE OFFICIAL LAUNCH OF THE KENYA NATIONAL ENTREPRENEURS SAVINGS TRUST PUBLIC LIMITED COMPANY BOARD OF TRUSTEES CEREMONY HELD AT THE NATIONAL TREASURY BUILDING ON 15<sup>TH</sup> MARCH 2023 AT 1.00PM

---

**Good afternoon, Ladies and Gentlemen,**

1. It gives me great pleasure to join you this afternoon, together with my colleague, the Cabinet Secretary, Ministry of Cooperatives and Micro, Small & Medium Enterprises, Principal Secretary, National Treasury, our key stakeholders, including The Governor of the Central Bank of Kenya, The Chairman, Retirement Benefits Authority, KNEST Service Providers, The Media, and our development partner – The World Bank, to officially launch Kenya National Entrepreneurs Savings Trust (KNEST) Board of Trustees.
2. About **1076 pension schemes with over 3.2 million members** are registered with the Retirement Benefits Authority (RBA) and have contributed aggregate retirement savings of over **Ksh.1.6Trillion**, representing **13.1 percent of Kenya's GDP in 2021**.
3. **Kenya's young population is aging and without extending protection to the elderly, there is a risk that poverty in old age will increase.** Protection from old age poverty is provided through the Inua Jamii Senior Citizens Grant (a payment of Ksh. 2,000 per month payable to all Kenyans over age 70), but this is only sufficient to cover the most basic of needs and is **not sustainable**.
4. As part of the wider reforms being undertaken in the pension sector, the National Treasury has established KNEST – a

government sponsored National Informal Sector Pension Scheme targeting the more than 16 million marginalized informal sector workers. The Scheme is incubated at the National Treasury until it gains scale and reaches sustainability in about 3-5 years.

5. Ladies and Gentlemen, The Kenya Kwanza Administration is focused on improving the Social Economic Welfare of every citizen of this country through a conscious Bottom-Up Economic Transformative Agenda (BETA). The Administration's Manifesto recognizes that the informal sector is at the core of economic development in this country. It contributes about 33.8 % to the GDP yet the sector is excluded from formal saving mechanisms, including pensions due to their unique circumstances.
6. The government takes cognizant of the fact that the current regulatory framework was not designed to meet the unique needs of the informal sector workers, whose earnings are meagre and irregular. That is why the National Treasury established a Trust Corporation under the Companies Act, known as Kenya National Entrepreneurs Savings Trust Public Limited Company, and appointed you the Trustees to oversee its operations in compliance with the Retirement Benefits Act provisions.
7. As you are all aware, Kenya National Entrepreneurs Savings Trust (KNEST) was set up, and is licensed by the Retirement Benefits Authority as an **individual pensions plan** scheme on **4th**

**February 2022** pursuant to the Government of Kenya Cabinet Memo dated 23rd February 2021.

8. KNEST is mandated to extend pension coverage to the informal sector which existing institutions could not serve. This gap in pensions coverage was exemplified in the World Bank's report released in 2019 which identified costs as a key barrier to pension uptake.
9. The pensions sector lacks a suitable infrastructure that will provide for pensions, as well as a savings channel for fostering efficient and affordable MSME economic resilience. This is because this sector has been neglected for far too long that it has a high deficiency of trust. An affordable pension product offered at high efficiency in a secure and transparent environment is what will build confidence in this segment and encourage uptake of the pension product.
10. The existing pension savings arrangements are not designed to manage micro-contributions and therefore end up providing meaningless returns on micro savings. To this end, KNEST contributions will be linked directly to Government securities and specifically to M-AKIBA retail bond when it is issued. This will ensure safe and guaranteed double digit return to the members.
11. For a long time, the Informal sector workers have been neglected since they do not benefit from various applicable incentives on pension contributions. Such as:

- The decision by the Kenya Kwanza government to match pension contributions at the ratio of 2:1 is a huge incentive that will catalyze growth in the sector. For the very first time in the history of this country, Mama mboga will get the same treatment as anyone in the formal employment.
- Members will also benefit from Tax exemption on contributions and on investment income including capital gains that accrue from investing in government securities.

12. The development objective of the Affordable Housing Finance Project is to expand access to affordable housing finance to targeted beneficiaries. Many affordable housing initiatives in Kenya have focused more on individuals in formal employment with regular wage earnings. Kenya Mortgage Refinance Company (KMRC) for instance has a mandate of providing long term funds to primary mortgage lenders (Banks, Microfinance Banks & Saccos) in order to increase the availability and affordability of home loans to Kenyans. Such arrangements would ordinarily prefer benefits to individuals within the wage-earning bracket given the requirements by primary mortgage lenders.

13. Although the government has been implementing the affordable housing program mainly through the support of World Bank and other development partners, the framework of

the support has been mainly through debt financing. The cost and risk of borrowing externally has significantly increased following the rebasing of the economy and graduation of Kenya to middle income level. This means that Kenya is no longer accessible to highly concessional loans with favorable terms. This situation clearly requires rethinking on diversifying sources of financing for cheaper credit.

14. It is against this background that the informal sector which has over the years remained excluded from the formal system of finance, becomes a pillar in supporting the affordable housing program. The KNEST initiative of promoting savings (both short term and long term) will provide the much-needed funds for the government to invest in assets that match the risk profile of the products on offer. The long-term savings which are designed to provide a cushion for old age poverty could be invested in the affordable housing program.

15. KNEST as a scheme is intentionally designed to manage meager and irregular micro contributions by leveraging technology to provide an affordable low-cost pension product at high efficiency. The scheme is projected to be financially viable within 3 – 5 years. The Scheme is currently under incubation at the National Treasury. During the incubation period, the World Bank is providing seed funding for the scheme with government providing counterpart funding.

16. The uniqueness of KNEST and its target market cannot be overstated. So, you can see that your job is already cut out for you, and I have no doubt that you are up to the task. You have been carefully picked for this purpose based on your unique skills.
17. As you join KNEST, your most important goal is to impact the lives of this very important sector positively. I expect you to apply your unique skills, zeal and dedication for optimal results.
18. As a Board, you are entrusted with the management of this important life changing initiative, your mandate is to:
- a) Manage, supervise and administer the scheme for the benefit of the members
  - b) Pay or provide for the payment of the benefits prescribed by the Scheme Rules to the entitled persons
  - c) Hold the scheme funds upon irrevocable trust and apply the same in accordance with the scheme rules, and
  - d) Comply with the scheme rules in managing and administering the scheme
19. It is important to note that the sector you are serving is very sensitive and untrusting, so building confidence in KNEST is crucial for its survival and growth. I must stress that Trust is the only universal currency that supersedes money. So you must guard it jealously.

20. You individually have fiduciary responsibility to ensure that you manage KNEST professionally and take utmost care of the funds entrusted to you.
21. My Ministry is very passionate about this initiative as it is expected to chart a new path for this very important sector and pledge our full support to you. To enable you achieve your mandate, the PS National Treasury has deployed a team, led by a CEO to give you the necessary support. We therefore expect you to deploy your valuable skills, knowledge and experience, to steer KNEST and make it grow to gain scale and reach sustainability within a very short time.
22. I want to recognize in a very special way, the support that the World Bank has accorded the National Treasury by facilitating this initiative to ensure provision of resources through technical assistance up to this point when we are ready to operationalize KNEST.
23. KNEST Fund is projected to grow exponentially due to the flow of the savings component from the Hustler Fund in addition to the voluntary savings program of an estimated 4.5 million informal sector workers who may not be requiring credit-led savings channel.
24. When these savings are invested in Government securities, KNEST will progressively gain scale and attain sustainability within three to five years. KNEST is projected to significantly raise the savings rate in the country from the

current 16 percent to more than 40 percent in the next 5 years. The effect of increased domestic savings is to enable a systematic reduction in the cost of borrowing.

25. With those few remarks, it is now my pleasure to welcome you to KNEST and officially launch your tenure as Trustees.

Thank you,

**PROF. NJUGUNA NDUNGÚ , EGS**

**CS / NT & EP**

DATED 15<sup>TH</sup> MARCH 2023