THE ROLE OF FINANCIALS

IN SAVINGS MOBILISATION IN KENYA WITH REFERENCE TO KENYA POST OFFICE SAVINGS BANK 1960 - 1978

BY

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This thesis is my original work and has not been presented for a degree in any other University.

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This thesis has been submitted for examination with our knowledge as University Supervisors.

DR. P. PATHAK.

PROF. T.C.T RYAN.

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ABSTRACT

This study looks at the role of financial institutions in savings mobilisation in Kenya with particular reference to Kenya Post Office Savings Bank (KPOSB). The hypothesis to be tested is that the KPOSB through its social objectives has increased the level of savings. These social objectives are a wide geographical distribution, a low minimum deposit requirement and large number of offices.

Savings have been said to be a constraint in developing countries. Due to lack of data, theories on how to raise savings in developing countries have not been formed. Therefore, theories on savings for developed countries have been applied to less developed countries (LDC) with little success. This is because there are certain constraints which reduce the ability of LDCs to effectively mobilise savings as spelt out in these theories. It has been found that the household sector contribute more to national savings than other sectors. The only way to effectively tap this savings is through financial intermediation. Financial institutions are supposed to efficiently allocate these savings to the most productive sectors of the economy. Therefore theory on financial intermediation and savings will be used in this study, to find out the role of KPOSB in savings mobilisation.

This study is therefore divided into 5 sections. Chapter 1 is an introduction.

Chapter 2 is a literature review on savings mobilisation. This briefly covers various theories on how certain variables can increase the level of savings. These are theories on income and savings; taxation and savings, capital inflow and savings, export and savgins , interest rates and savings; and financial institutions and savings. The basis of these theories, their weaknesses and strengths when applied to LDCs will be briefly discussed. Emphasis is laid on the theory of financial institutions. Financial institutions can mobilise savings through incentives it creates to savers; by getting resources from all groups by putting a low minimum deposit requirement; by having wide geographical distribution of branches which mobilise and allocate resources; offering diversified asset composition to satisfy asset acquisition desires of various people; and through other factors like offering attractive services to customers.

A model to show the relationship of these variables to savings mobilisation is formulated and discussed. All these other theories are discussed to show why they are not used in this study as they are not relevant to LDCs.

Chapter 3 deals with financial institutions in Kenya. It briefly looks at the historical background and specialization of these institutions. Financial institutions in Kenya are divided into three categories namely, commercial banks, non-bank private and non-bank public

financial institutions. The first two types of institutions are profit maximisers, therefore do not adequately serve the most economic and socially productive sectors of the economy. They tend to serve mainly the multinational (MNC) and industirial sector who have promising security for the loans but whose capital output ratio and return to the LDCs economy is less than in agriculture.

Non-bank public financial institutions have social objectives which make them fit well in LDCs where low income groups and rural population form the largest proportion of the LDCs total population. These are the socially productive sectors of the economy.

However most of these institutions are specialized in lending. Only cooperative societies, Housing Finance Company of Kenya, (HFCK), National Social Security Fund (NSSF) and KPOSB out of fourteen public institutions are involved in savings mobilisation. NSSF is a compulsory savings scheme; Housing Finance Company of Kenya is limited to urban areas; and cooperative societies are limited to specified sectors of the economy. Cooperative Societies are also relatively new and much has been written about them. KPOSB is widespread in Kenya, savings channelled through it is voluntary and little research has been done on it. This is why it is chosen as an area of study.

Details in chapter 2 and 3 are included so as to bring out clearly why this area has

been chosen for study.

Chapter 4 deals with data analysis, it shows how data was collected and analysed. However, due to data limitation and constant nature of most of the data, detailed statistical analysis of the data was not possible. Therefore most of the analysis is descriptive. This chapter also looks at problems facing financial institutions.

The last chapter deals with conclusions and recommendations.

CHAPTER 1

INTRODUCTION

This study looks at the role of financial institutions in savings mobilisation with particular reference to Kenya Post Office Savings Bank (KPOSB). KPOSB is a public financial institution formed by an Act of Parliament to encourage and facilitate personal savings. KPOSB has techniques of operations which fit well into the rural areas. Commercial banks and private financial institutions techniques of interest rate do not appeal to rural areas. KPOSB techniques of operations include wide geographical distribution and low minimum deposit requirement. These are the social objectives of the bank which make it a suitable institution for mobilising savings from the rural area and the urban low income group.[1]

Considerable efforts are being made by developing countries to improve their economic growth and development. This calls for increased rates of capital formation in these countries which can be attained through increased savings and efficient allocation of these savings in the most productive sectors.

According to the United Nations report, Strategy for the Second Decade, 1970-79, the aggregate gross product and gross product per capita in the developing countries as a whole are expected to grow at annual rates of 6 percent and 3.5 percent respectively and there is a possibility of attaining higher rates.[2] However, the performance

of the developing countries as a whole fell short of these targets. The report reveals that realised growth rates during this period were 5.7 percent and 2.9 percent for gross domestic product and gross product per capita respectively.

The report further explains that the performance of some developing countries including the least developed are those seriously affected by economic crises was even more unsatisfactory since their total output grew at an annual rate of less than 4 per cent.

The Investment record of many of these developing countries show that the major factor responsible for the sluggish pace of economic growth has been the inadequacy of their capital formation for the expansion of their productive capacity. This in turn is due to the inability to achieve higher annual rates of gross national savings to gross domestic product.[3]

There are other theories which explain other ways of achieving self sustained growth rate. For example, the dual economic model where domestic savings is one of the possible constraints to investment, implying that foreign capital is needed to enable the country to achieve a self-sustained growth.[4] These theories will not however be discussed in this study because they are outside the area covered by financial policy.

It has been calculated that if a country is to attain self-sustained economic and social development, its ratio of gross national savings

to gross national product must be in the range of 15 percent.[5] Among the developing countries, only Sri Lanka,India and Tanzania have managed to achieve this target.[6]

For this reason, a lot of emphasis has been laid on savings rate. Even some developed countries which give aid have insisted that the developing countries should increase their saving rate.[7] Therefore in the less developed countries any policy that increases community savings will, other things being equal, increase the level of development. Other things are policies related to education, social welfare, income distribution and general economic policies. These are outside the purview of financial policy and therefore will not be discussed in this thesis. But their behaviour do affect the role which financial institutions play in savings mobilisation.

There is a general lack of data[9] to formulate theories on savings relevant to the developing countries. Savings data problem includes quantity, availability, uniformity and reliability. These problems reduce confident cross-section and time series comparability of data for savings in these countries. Most data employed in studies of savings behaviour in these countries are derived as residual from gross national product employed at market prices. While gross private savings is further derived as a residual after deducting government savings from domestic savings. Even data on major components of savings, that is, household, business and government sectors is not available and where available not reliable.

In most of these less developed countries (LDC) the national accounts are derived as a residual. There is no way of checking for consistency and reliablity because data on national expenditure or on income are not available. For example, Chile household savings was negative except for two years between 1950 and 1967. During the same period, average annual household savings as a percentage of GNP was - 6.3 percent for Panama while in some countries like Argentina, Venezuela and Peru household savings accounted for 55, 11 and 33 percent respectively of total gross capital formation.[8] The level of economic development in these countries are more or less the same. Therefore, it is difficult to believe that savings prospensities in these countries differ as the above data indicates. Even available data on gross capital formation differ widely for these countries.

The unreliability, inconsistency and discrepancies of savings data in LDC have five implications. First, aggregate savings estimates are subject to a rather wide margin of error. Therefore, inferences from review are only pointers and should not be taken as settled conclusions. Second, great caution must be exercised in evaluating the results of behaviour based on aggregate savings data for a number of countries. Third, savings is derived as a residual and does not reveal a true measure of savings effort which is important for economic growth. Fourth, the degree of error is so high

that their usefulness is questionable. Lastly, there is a need for generating sufficient data for deriving aggregate savings estimates on more than one basis for comparison. Because of these limitations, this study will only occasionally comapare Kenya's savings performance with that of other developing countries.

Due to lack of data and knowledge on savings of LDCs, savings models for developed countries have been applied by various writers on the nature of savings of LDC with no concrete results. These models show that many factors tend to influence the rate and level of aggregate savings.[9]

These models are those involving income, export, capital inflow, interest rates, taxation and financial intermediation and savings. Except for the last theory, all others have been found to have some limitations when applied to LDCs.[10] This is so because of the peculiar conditions within these countries which make them less developed. Financial institutions are important in these LDCs because voluntary household savings have been found to be relatively large compared to those of firms and governments.[11] It is only through financial institutions that household savings can effectively be tapped. In Kenya, as in many other LDCs financial institutions can be divided into three categories, namely commercial banks, non-bank private financial institutions and non-bank public financial instituions.

The objective of the first two categories of financial institutions is profit maximisation which make them less effective in mobilising savings from all sectors of the economy, and from all classes of people. Non-bank public financial institutions are more suited to effective mobilisation of savings in LDCs.

However, most of these non-bank public financial institutions are specialised lending institutions, out of fourteen of these only four are involved in saving mobilisation. These four are KPOSB, Housing Finance Company of Kenya (HFCK), National Social Security Fund (NSSF), and Cooperative Societies. Of these, it is only KPOSB which apart from having social objectives has a wide geographical distribution and a voluntary savings institution. HFCK is confined to urban areas; cooperative societies are restricted to type of activities and NSSF is a compulsory savings scheme. This is why KPOSB is singled as an area of study.

Various variables such as geographical distribution, incentives offered, number of branches of KPOSB and minimum deposit requirement will be tested to determine whether KPOSB translates its social objective in its operations. Theoretically, a wide geographical distribution, low minimum deposit requirement, large number of branches and more incentive offered are supposed to reflect social objectives. These variables plus services offered to customers, employment of funds, monthly behaviour of deposits and

withdrawals determine whether financial institutions have played an important role in savings mobilisation, thus increasing the level of savings. Apart from these variables certain indicators namely the ratio of KPOSB deposits to GDP, to total deposits and to national savings show whether KPOSB contribution to the country's savings mobilization has increased. There are certain political and economic factors which affect the performance of the bank. These will be mentioned briefly.

CHAPTER 2

LITERATURE REVIEW

Various scholars have provided various theories on the nature of savings in developed countries.[12] Lack of data in LDCs reduces ability of the economists to produce models specifically relevant to the LDCs. Therefore,models designed for developed countries have been applied to LDCs. This chapter will deal with the literature review on various hypotheses. It is not confined to theory of financial institution and saving. The idea is to show how savings can be mobilised according to various theories and why the theory of financial intermediation is more relevant to LDCs. These theories are discussed below.

The theory on income and savings has been developed by both classical and neo-classical theorists.

Classical theory states that savings is a function of income and income is a function of investment.[13] In an equation form, this can be expressed as:-

$$S = f(Y) \qquad (2.1)$$

$$Y = \phi(I) \qquad (2.2)$$

where S is saving, I is investment, Y is income thus as income increases savings will also increase, $\frac{\partial f}{\partial Y} > 0$ as investment increases income will increase. Savings will increase in turn.

Also related to this are hypotheses that savings is a function of income per capita and current income. The first one says that marginal propensity to save varies with income distribution. This means that those countries with high income per capita have higher marginal propensities to save than countries with low income per capita. The second hypothesis states that savings is influenced by current income, sources of income and urbanization. For example functional distribution of incomes among the categories of wages, rents, interest and profit influences savings. It is expected that a change in the functional distribution of income away from wages and towards profit would reduce consumption because savings of profit recipients would be greater than those of wage earners.

An attempt has been made by neo-classicals to explain the saving behaviour in terms of investment as an explanatory variable in post Keynsian. One of the neo-classical hypotheses states that savings is a function of both present and previous incomes. This hypothesis has however not yet been tested for developing countries. However, given the level of incomes in LDCs, and problems of estimating previous incomes, this theory would not be suitable for LDCs. Therefore, it is not used in this study.

Friedman's long-run savings hypothesis is another neo-classical theory and states that savings is a function of permanent and transitory

incomes.[14] In an equation form this can be expressed as:-

$$S = f\,(Y_{P_t}\ ,\ Y_{T_t}) \ldots\ldots\ldots\ldots\ldots (2:3)$$

where is S is savings, YP_t is permanent income in period t and is defined in terms of long-run expectation over a planning period; and Y_{T_t} is tansitory income in period t which is defined as the difference between actual income in period t and permanent income in that period t.

This hypothesis assumes that individuals consume virtually all transitory income. If linear relationship is assumed then the above equation can be written as:-

$$S = a_0 + a_1 Yp_t + a_2 Y_{T_t} \ldots\ldots\ldots (2:4)$$

This means that an attempt is made by savers to spread consumption evenly over their lives by accumulating enough savings during their earning years to maintain the consumption standard during retirement. Important variables are population growth, income growth and the number of dependants. In an equation form, this can be expressed as:-

$$S=f(Pg,\ Yg,\ D) \ldots\ldots\ldots\ldots\ldots\ldots (2.5.)$$

where is S is Savings, P_g is population growth, p_g is income growth and D as number of dependants.

If linear relationship is assumed for these variables, the above equation can be written as:-

$$\{S=a_o+a_1P_g+a_2Y_g+a_3D\} \ldots\ldots\ldots\ldots\ldots (2.6.)$$

It is expected that population growth reduces S; income growth increases S and large number of dependants reduces S. In other words Y_g is positively correlated while P_g and D are negatively correlated to level of savings.

Although savings is related to income in LDCs, the validity of tests on income-savings relationship is impaired by the absence of information on the savings behaviour of households, by income class and by the type of savings. There are also problems in deriving a proper concept of savings which would be relevant to people who may regard the purchase of jewellery and precious metals as savings; children and their education as security for old age. Also incomes in LDCs are rather low thus savings from them would be quite small. These reasons limit the application of this hypothesis to LDCs. Therefore this hypothesis of income and savings will not be applied in this study.

A hypothesis regarding capital inflow and domestic savings has also been developed. This hypothesis states that savings is a function of foreign capital inflow.[16] In an equation form this can be expressed as:-

$$S=f(F / Y_g)........................(2.7.).$$

where S is savings, F is foreign capital inflow, Y_g is GNP, therefore (F/Yg) is the ratio of foreign capital inflow to GNP,

This says that as foreign capital increases, savings will also increase if linear relationship of these variables is assumed then the above equation (2.7.) can be written as:-

$$S=a_o + a_2 F/Y_g \ldots\ldots\ldots\ldots\ldots\ldots (2.8)$$

Coefficient of (F/Y_g) is supposed to be positive.

The argument of this hypothesis is in line with the two gap model which states that savings is a constraint to development and there will be a viscous circle of poverty unless foreign savings supplements domestic savings. However, recent studies have seriously questioned the effect which capital inflows have on both the level of national savings and the average savings, these studies tend to suggest that capital inflow has negative effects on savings. It is argued that an increase in net foreign funds causes a relaxation of government savings and thus affecting national savings. This substitution effect has been found not to have a big effect. On the other hand if effort is being made to increase domestic savings through self-help in mobilisation then there will not be any substitution effect.

LDC cannot raise all savings they need for development purposes especially savings in foreign exchange. So to a certain extent foreign capital is useful in supplementing domestic savings. For this reason, it is important that developing countries financial policies should also be directed towards encourgement of an inflow of foreign capital on reasonable terms. Domestic savings will be frustrated by any policy, which leads to a reduction in net capital inflows or leads to net outflows.[18] This will be discussed when

dealing with the theory on interest rates and savings.

However, although net foreign capital inflow is necessary no country should rely on it because it is inadequate as potential users are many, it can be unreliable and often has strings attached to it. It also subjects the recipient to alot of debt servicing problems.

A hypothesis on savings and export says that there is a positive relationship between the two variables, and also between rates of growth of exports and rate of growth of national product.[19] However the improtance of exports as an independent determinant of savings given the collinearity between independent variables employed in the savings functions is not yet determined. What is clear is that exports are important especially in the LDCs.

Whether the marginal propensity to save in the export sector is higher than in other sectors is not yet established. Lack of data on household savings by income class limits firm conclusion on this. On the other hand, most developing countries export raw materials mainly agricultural products which have relatively lower values compared to manufactured goods and the market price for these exports are controlled by developed countries. Therefore, exports cannot independently determine savings in the LDCs. The relationship between the two variables involves a number of complex theoretical and econometric problems which include differentia-

ting income and substitution effects of interest rate on savings; quantifying the role of expectations and planning horizons of saving decisions.[20] However interest rates are more significant in determining the channels into which, savings will flow in all economies than in altering marginal propensities to save. This is because the total volume of savings is likely to be interest insensitive especially in the developing countries where average size of savings are small. This means that returns from such small accounts would not constitute a substantial additional income for the saver. There is in fact evidence that higher interest rates on savings is indeterminate because it allows a saver to acquire a planned saving through smaller regular savings than would be required if the interest rate were lower.[21] Thus there may be an inverse relationship between the level of interest rates and certain types of savings.

However, differences between interest rates on various types of financial assets have strong influences on the relative demands for these assets. This is because financial assets are substitutes as far as demand for holding them is concerned. Generally economists have agreed that higher real interest rates will lead to increased savings. For example, a lot of studies which have been done for Asian countries have revealed this.[22]

These studies have tested data on Taiwan, Korea and Indonesia and have found that low and sometimes negative interest rates especially during inflation repressed savings and created foreign exchange crisis. The governments of these countries realised this. Therefore during financial reforms these countries increased interest rates beyond inflation rates as one of the monetary measures. As a result, holdings of financial assets increased in these countries and savings increased thus providing loanable funds for development.

Interest rates on deposits ~~is~~ are connected to the lending rates. If the latter is controlled as is the case in many developing countries, it constrains the rates which financial institutions can pay on various types of deposits.[23]

This also limits the geographical and sectoral distribution of financial institutions and distribution of financial resources respectively, thus, creating and enhancing a dual type of economy.[24] This is a negative effect on economic development in the country.[25] For this reason interest rates should be realistic and be allowed to vary according to economic situations as this will improve financial intermediation.[26]

On the other hand, controlled low lending interest rates can create a balance of payments problem and as a result have adverse effect on saving from foreign sources.

However, to a certain extent interest rates play an important role in savings mobilisation because in all three theories on demand for money, interest rates play an important role. These theories are Keynesian, monetarist or Quantity theory and alternative view of accumulating capital. Given that in developing countries interest rates are controlled and are not allowed to reflect the situation of financial market, interest rate effect on saving is not considered important. Because incomes are low, the majority of people are not sensitive to interest rates. Therefore this hypothesis is not highlighted in this study.

The theory of savings and taxation regards the level of savings and the structure of taxation as extremely important variable in the determination of domestic savings. Therefore, fiscal policy has been regarded as a means of mobilising savings to promote growth. Questions which have been asked on this involve the relationship between the increase in taxes and the overall level of savings. The argument is that as govenment savings increase with increased revenue the marginal propensity to be consumed by governments out of increased revenue is higher. This in some cases has led to a decrease in national savings. This is the Please Effect.[27] There is little evidence of this. For example Bhatia studies the effect of taxes on levels of private and public consumption for some African countries and found that for every one percent

increase in ratio of tax to GDP private consumption decreased by .21 percent of GDP and public consumption increased by .05 percent.[28]

This leads to the next important question on this issue, that is, whether there is substitution between private savings and government savings as a result of taxation. Some people have found high degrees of substitutability which means that an increase in government saving leads to a reduction in private saving.[29] There is also a positive relationship between the tax rate and the private savings rate so that an increase in the tax rate increases private savings rate.

Thus there seems to be no conclusive statement as to the effect of taxation on savings. Mikesell and Zinser concludes:-

> "The analysis of the effects of taxaxation on savings raises policy issues which cannot be evaluated on the basis of statistical aggregates usually employed. We need more functional concept of current and capital expenditures by Governments. Certain types of expenditures for education are recorded as consumption whereas, they might well be regarded as investment in human capital. Government expenditures on a presidential palace or construction outlays in the data on government investments while they might be classed as current expenditures. The diversion of private savings from land or inventory specula-

> tion or from investment in foreign securities to the public treasury is not an undesirable development. On the other hand, taxation that reduces the incentives and ability of private firms to reinvest their earnings might be regarded as undesirable means of raising governmental revenue regardless of what the government does with its reveneu."[30]

In the developing countries tax revenue can be inelastic with respect to the growth of income and the governments marginal propensity to save is low. This is because taxes are constrained by a large subsistence sector, low incomes, inadequate civil servants to administer and implement an effective tax system, the savings nature of the business enterprise and widespread illiteracy. Taxation can also be very sensitive politically. Thus taxation alone cannot generate enough savings for development. This is because savings is constrained and yet these governments are required to accelerate economic development and social progress although they often incur expenditures which exceed their revenues. This sometimes force the governments to resort to deficit financing which if not done with care can create inflation problem.[31]

Therefore, this theory has some weaknesses and its application to developing countries would create inadequacy of savings. It is however agreed that all economies, governments need to raise its savings for financing certain social

projects which by their nature does not appeal to private sector.

Lastly there is the theory of financial intermediation and Savings. This theory specifies the role which financial institutions play in savings mobilisation. This theory was first developed by Gurley and Shaw and many writers have expanded on it.[33] This role is summarised below.

First, financial institutions provide the link between surplus and deficit spending units. These institutions offer to surplus spending units a rate of return while charging deficit spending units rate of interest. A rate of return is one of the incentives to attract people to save with these institutions.[34] By linking the surplus and deficit spending units financial institutions break the confines of self-finance.[35] The role of being an intermediary between the two units is important because the distribution of savings among economic units does not always correspond to the investment among them. These institutions mobilise savings from a wide range of indirect sources each of which would be too small for worthwhile investment.[36] The amalgamation of these relatively small individual flows into a large pool which can be available at the right time and place allows the investors to think in terms of big investments which either their own finances or direct borrowing from savers would not permit. The increased investment is

supposed to increase savings in turn.

Secondly, these financial institutions provide incentives which attract savings. These incentives are a rate of return on savings; protection from theft, physical damage and insurance for life; and a chance to borrow at some future date. Effects of rates of return is already discussed. Theoritically rates of return on savings is supposed to be an incentive to savers.

A chance to borrow at some future date has been regarded by some economists as an important incentive to save.[37] Financial institutions which do not advance credit reduce their effectiveness in savings mobilisation. Effective savings mobilisation involves both collection of savings and reallocation of these savings into the most productive sectors of the economy. Financial institutions which mobilise financial resources from some sectors of the economy but do not provide them with credit, drains those financial resources from those sectors.

A desire to save is a desire to acquire an asset, thus:-

> "No one wishes to save per se; savings is only undertaken because the asset acquisition that it makes possible have a utility to their holders"[38]

This quotation is in line with the argument of the demand for money theories. Although these theories differ in principle, they all indirectly

indicate that the demand for financial assets dependson the desire of their holders as well as attractiveness of these assets. Financial institutions are supposed to provide opportunities to satisfy savings desires by widening range of opportunities for individuals and firms to acquire financial assets. This is supposed to lead to a positive response in asset acquisition which in turn increases savings. A wide range of assets allow their holders to spread their risks.

Demands for asset holdings are transactions, liquidity, precautionary, security, income and hoarding, Therefore, financial policy of any country is supposed to recognize asset desires among its citizens and identify those that will make greatest contribution to the economy's stock of savings. Financial institutions which will cater for these desires should be developed. Various types of financial institutions specialize in different kinds of asset holdings. Duplication of financial institutions means that only certain sectors will be getting improved services while other sectors do not get them at all or are inadequately served. Therefore an appropriate financial system is to try to cater for all sectors of the economy. Each financial institution is supposed to difersify its own asset composition.

An economy with limited financial assets has a large proportion of its savings in form of tangible assets like land, precious stones or money is hoarded. This is the case with developing countries where

there are little financial savings while asset acquisition of such physical assets involves the act of savings in the process of buying them, there is however no guarantee that the act of saving will lead to productive investment. On the other hand, tangible assets acquired have positive opportunity cost if left idle. Therefore the existence of financial assets provided by financial institutions provide a stronger guarantee that the act of savings will lead to productive investment.

This leads to another important role of financial institution, that is to efficiently channel resources mobilised to most productive sectors of the economy. This is also one of the incentives as is already mentioned. Financial institutions are supposed to efficiently channel these resources because they specialized in the debt they acquire, combining varying amounts and maturities at various costs with special advising and technical services. Through market mechanism they are able to channel pooled resources into most productive sectors. Specialization means that financial institutions can achieve certain economies of scale which reduce cost and risk. As a result interest rates on loans are relatively low compared to rates charged by private money lenders. The relatively low rate investment and its availability assist in the process of development which in turn will increase savings.

The linkage between saving and loan facilities is important especially in developing

countries because of interdependence of households and firms. An expansion of savings mobilisation without a concomitant extension of their lending facilities might not answer the needs of many potential savers who are interested in borrowing as in the deposit facilities.

To mobilise and allocate financial resources effectively, financial institutions must have a wide geographical distribution, which other things being equal, generates more savings.

Opening and distributing branches of financial institution throughout the country is an aspect of an expanding financial intermediation which increases savings and makes substantial contribution to economic development. Long distances from these institutions discourage people from depositing their surplus incomes with these institutions. The majority of potential savers would hoard, buy tangible assets or consume their surplus resources than be inconvenienced by long distance, ques or delays by limited distribution of financial institutions. The wide geographical distribution should be for both mobilisation and allocation of financial resources.

A wide geographical distribution brings more people into the cash economy and generally makes people aware of the workings of the money economy. This is an important contribution to development. Financial institutions can serve as agents of education and broadcasting, information regarding economic opportunities in terms of savings,

investments and economic activities in general. This will in the long run increase savings.

Apart from wide geographical distribution, the number of financial institution per the number of people is also important for effective savings mobilisation. Econometric evidence has supported the hypothesis that financial intermediation measured by the proportion of financial savings and by the number of branches per million inhabitants has a positive influence on national savings in the majority of the developing countries.[41] J.D. Von Pischke holds the same view when he writes:

> "Savings are responsible to the number, availability, and efficiency of financial institutions, instruments and markets. It is an observed fact that multiplicity of savings media in the face of different types of financial assets help to increase net savings."[42]

All financial institutions require those who save with them to maintain certain level of minimum deposit requirement. A low minimum deposit requirement (md) enables all income groups to save.[43] Some financial institutions with profit maximisation motive deliberately put a high minimum deposit requirement. Low md is especially important in LDCs where the majority of people are in the low income group: high population growth and extended family system. Both of these factors increase the number of dependants which reduce surplus income which

would have been saved without the two factors.

A wide geographical distribution, large number of offices and a low minimum deposit requirement are social objectives, which institutions with profit maximisation objectives cannot afford to practice.

There are also other important factors which determine financial institutions' ability to increase savings. These are services offered, monthly behaviour of deposit mobilisation and asset acquisition. Other services include withdrawal and deposit facilities, identification. Monthly behaviour of deposits with financial institutions will show whether institutions deposits pattern coincides with national activities like harvest, school fees period. Coincidence with these events show that financial institutions fulfill real needs of the people and mobilise resources when available. This is not only an important role but an incentive.

Diversification of asset acquisition shows that financial institutions can invest in assets with high returns so as to enable them to pay their depositors high interest rate.

Therefore,

> "Financial intermediaries of all types and degrees of specialization mobilise the savings of a community generated in a myriad disjointed places, from diverse economic and social strata and canalise them to investors with technical

entrepreneural talent."[44]

From the above discussion, it can be said that the ability of financial institutions to mobilise savings depends on the following variables, incentives it creates to savers, classes of people it serves, its wide geographical distribution, large number of its offices, asset diversification, offering valuable services, capturing peak incomes and offering other services.[45] In an equation form, this can be expressed as:-

$$S=f(I,n,g, md,d,v,i,o,) \ldots\ldots\ldots\ldots (2.9)$$

S is saving, I is incentives, n is number of financial institutions served, d is diversification of assets, md is minimum deposit requirement, v is valuable services offered, i is capturing peak incomes and o is other services offered.

Actual saving by institutions is not available, therefore deposits will be referred to as savings.

I is incentives offered and as incentives increase savings will increase, thus These incentives are a rate of return on savings (r), opportunity to borrow at some future date (b), and protection. Therefore incentives is determined by r,b,p. In an equation form this can be expressed as,

$$I=\phi (r,b,p) \ldots\ldots\ldots\ldots (2.10)$$

Theoretically if r increases, I will increase

thus $\frac{\partial \phi}{\partial r} > 0$. However, the effect of this on saving is already discussed and it was found that in LDCs this may not be the case. Also if deposit rate increases lending rates will also increase, so as to enable financial institutions to pay increased deposit rates without running into a loss. This increase in rates must be checked otherwise it can create disintermediation, that is investment rate would be too high for borrowers to afford.

As b increases, incentives will increase, thus $\frac{\partial \phi}{\partial b} > 0$. As P increase, incentives will increase that is $\frac{\partial \phi}{\partial \rho} > 0$, depositors will have increased confidence in financial institutions.

Since an increase in I will increase savings and an increase in r, b and p increases I, then increase in r, b, p will increase savings. Thus

and $\frac{\partial f}{\partial r} > 0$, $\frac{\partial f}{\partial b} > 0$, and $\frac{\partial f}{\partial p} > 0$.

It is expected that other things being equal, a wide geographical distribution will increase savings, that is $\frac{\partial f}{\partial g} > 0$.

An increase in n, other things being equal, will increase the level of savings, that is $\frac{\partial f}{\partial n} > 0$.

It is assumed here that an increase in v, other things being equal, will increase savings that is it will offer better services to depositors which in turn will increase efficiency, and attract more people.

A low Md allows all income groups to save. It is therefore, expected that a lower md, other things being equal, will allow a large number of people to save and savings will increase, thus $\frac{\partial f}{\partial md} > 0$.

As d increases, other things being equal, it is expected that various asset desires will be respresented with the level of savings. Thus $\frac{\partial f}{\partial d} > 0$.

Capturing peak incomes will increase the level of savings thus $\frac{\partial f}{\partial i} > 0$. Also increase in other services offered which make positive results will increase the level of savings thus

Thus equation 2.9. can be written as:-

$$S=a_0+a_1r+a_2b+a_3p+a_4n+a_5md+a_6g+a_7V+a_8i+a_9o..(2.11)$$

$$\text{Thus:- } dS = Q_0 + \frac{\partial f}{\partial r}.dr + \frac{\partial f}{\partial b}.db + \frac{\partial f}{\partial p}.dp + \frac{\partial f}{\partial n}.dn + \frac{\partial f}{\partial md}.dmd + \frac{\partial f}{\partial g}.dg + \frac{\partial f}{\partial v}.dv + \frac{\partial f}{\partial i}.di + \frac{\partial f}{\partial o}.do$$

This equation states that a change in saving can be attributed to all variables in the right hand side.

This model will guide the descriptive data analysis of possible contribution of financial institutions in savings mobilisation. Due to non-availability of data for some variables above and to the constant nature of these variables a regression analysis will not be done therefore, only descriptive approach will be used in the data analysis.

Apart from the above variables, there are

other important indicators which help to determine the impact of financial institutions on savings mobilisation. These are ratio of deposits to GNP or in some cases per capita deposits to per capita GDP. The level and growth of this ratio shows the relative importance of financial intermediation. However, comparison of this ratio among different countries might not be accurate because different countries use varying methods of mobilising savings.

The growth of deposits and the ratio of deposits of particular institutions to total deposits and national savings are important indicators. These show the contribution of any particular institutions to national savings and to total deposits. Increase in these ratios show positive contribution.

The number of people and its rate of growth is a sign of positive contribution. Increase in the number of people shows that financial institution play an important role in savings mobilisation.

The Equation (2.11) and these indicators will be used in our data analysis in chapter 4. This is the model which is relevant to LDCs. The role the financial institutions play in LDCs have been recognized because in these countries, household savings have been found to contribute more to domestic saving than any other sector.[46] In earlier discussions it was found that savings from governments and foreign sectors are limited. Savings from business sector is also limited

because under normal circumstances, firms plough back their profits and borrow from the rest of the economy.

These household savings can only be effectively tapped by financial institutions. Therefore this hypothesis is relevant to the developing countries. It is therefore used to test the role of KPOSB savings mobilisation in Kenya. The reason for choosing KPOSB as an institution of study will be seen in the next chapter.

Although financial institutions play an important role in economic development, some writers have questioned the direction of causation of this correlation.[47] For example Girdle quoted Alderman and Morris:-

> "The degree of increased effectiveness of financial institutions in an economy was closely associated with the level and growth of national per capita but this begs the question of the existence or direction of causation."

This has been explained by . Patrick that there are two ways of looking at financial system in its relation to economic development.[49] These ways are demand-following and supply-leading phenomenon. The demand-following phenomenon says that in the early stages of economic development there is little need for financial institutions. As the economy grows, it generates financial assets and services of investors and savers. This brings about a supply response in the growth of the financial services. The supply-

leading phenomenon states that financial institutions and supply of their services are created in advance of demand for them.

Because of dualistic nature of LDCs economies both phenomenons apply, although initially supply-leading should be prominent. For example in Kenya banks were started to serve settlers interests but after that some institutions emerged out of demand for them while others have been created by the Government to serve the nanscent sectors.

CHAPTER 3

FINANCIAL INSTITUTIONS IN KENYA

The essential function of financial institutions is to satisfy simultaneously preferences of various lenders and borrowers of financial resources as discussed in Chapter 2. However, these institutions fall fairly into distinct categories each intermediary offering different products, assets and liabilities to its customers both lenders and borrowers.

Chart 3.1 shows that Kenya's financial intermediaries are divided into three distinct categories namely commercial banks, non-bank private financial institutions and non-bank public financial institutions. Much has been written on these institutions.[50] Therefore they will be discussed briefly below.

Commercial Banks.

These are both private and public institutions. They are distinguished from other institutions because of their ability to create credit, its uniqueness to have chequing accounts and lend for relatively shorter period than other financial institutions. However commercial banks' demand deposits does not give them absolute immunity from competing with other financial institutions for savings and time deposits mobilisation. This is a limited advantage that can be, at least for many depositors overcome by differences in yield. It follows that the community's demand for bank deposits is not indefinite, even though demand deposits also serve

as a means of payment.

In Kenya like in all other LDCs commercial banks except for national banks stemmed from foreign banks and imported international banking standards.[51] Even public owned commercial banks operate with these standards which are not suitable for developing countries.

In most cases banks concentrate their operations in urban areas where there is a high density of economic, commercial and financial activities. Most of their branches are located in or near urban centres. Banks customers are in the middle or high income classes. Each commercial bank has its own savings department in addition to normal banking operations of savings accounts and the manner of operating these accounts in the banks are similar.

Commercial banks are generally selective in accepting and extending customers relationship in the sense that they do not like to deal with customers who do not come up to certain high economic standing. This criterion does preclude persons of small means who normally represent the majority in developing countries.[52] This large number of people require services of an institution specialising in the promotion of thrift and encouragement of saving for low income groups. However, commercial banks are major institutions which mobilise private savings in Africa.

CHART 3.1 FINANCIAL INSTITUTIONS IN KENYA

1	2	3
1. Commercial banks		
a) Public - Those owned by the Government. b) Private	Demand Deposits Savings Deposits Time Deposits	Short term and medium term credit for various purposes.
2. Non-Bank private Financial Institutions a) Specified Financial Institutions) b) Insurance companies) c) Subsidiaries Savings and Loan K.Ltd. Kenya Commercial Finance Akiba K. (Ltd)	Savings Deposits Time Deposits Premiums Annuities	(Mortgage, hire purchase (merchant financial and (personal banks. Mainly (long term service for (various purpose
3. Non-Bank Public Financial Institutions a) Specialised Savings Institutions[52]) b) Specialised lending Institutions[53])	Saving Deposits Premium Bonds	(Short-term, medium term (and long-term credit for (all purposes
c) Cooperative Societies d) Insurance Companies[55]	Shares[54] Premium and Annuities	Short-term credit for various purposes long-term finance for various purposes

1 Name of Institution

2 Type of assets they held for the public

3 Types of credit they offer to the public

51 Specified financial institutions in the private sector are housing finance companies, merchant banking companies and hire purchase companies.

52 These are Kenya Post Office Savings Bank and National Social Security Fund

53 These include those institutions lending for:-

a) Industrial and Commercial sector - ICDC IDB, DFCK and District Loan Board,
b) Agricultural sector - AFC, ADB, indirectly through CSCE and various agricultural boards
c) Housing sector - H.F.C.K. (d) Tourism, KTDC

54 Cooperative Societies sector to contributions made by members into their savings accounts as shares. This is because these are member societies and they are not paid interest rate on these shares but dividends.

55 These are Kenya Reinsurance cooperation and Kenya National Assurance

In Kenya there are 15 commercial banks. The largest ones are the Standard Bank, Kenya Commercial Bank and Barclays Bank. These three banks account for 80 percent of total deposits.[53] The smaller ones are Grindlays Bank International Bank of Baroda, Bank of India, General Bank of Netherlands, Habib Bank, Commercial Bank of Africa, National Bank of Kenya, Cooperative Bank.[54] First National Bank of Chicago, Citi Bank and Bank of Credit and Commerce.[55]

The three largest banks engage in general banking business and own over 260 branches, sub-branches and agencies and also some mobile bank units which visit a number of smaller towns and villages at regular intervals. The smaller banks tend to specialize. Some engage in domestic trade, some in import finance and others in export finance.

Before other institutions are discussed it is important to mention that there is a linkage between non-bank financial institutions and commercial banks. This is in the sense that non-banks financial institutions do not hold demand deposits, they instead regularly maintain demand deposits at commercial banks for their current transactions. The commercial bank system, therefore serves as administrator of the payment mechanism for other intermediaries deposit. Some of these institutions sometimes borrow from banks to augment their financial resources. This linkage is weak.

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There is also vertical integration among financial institutions. Several institutions have created subsidiaries which they use to diversify their activities. These subsidiaries are shown on chart 3.1. For example Kenya Commercial Bank has created Savings and Loan which is a housing finance company. Strictly speaking commercial banks are not involved in mortgage loans, but does so through its subsidiary. Upto 1978, financial institutions used these subsidiaries to go round and defeat Central Bank's policy of setting maximum portions to total assets for each sector.[56]

Non-bank financial Institutions

Although commercial banks in any country may satisfy most of that country's financial requirements, there are many types of transactions which because of their characteristics may be beyond the scope of orthodox commercial banking operations. Therefore, the development of other forms of financial intermediation is necessary to mobilise savings in competition with commercial banks and channel these savings into credit for agriculture, commerce, industry, mortgage both for firms and households and for purchasing of consumer durables.[57]

As shown on chart 3.1., Kenya has developed a whole range of non-bank financial institutions which are both private and public. These will be discussed separately.

The non-bank private financial institutions are specified financial institutions

and insurance companies. Ten financial institutions are licensed and involved in financial intermediation as specified financial institutions under the control of the Central Bank.[58] All these institutions mobilise savings and allocate financial resources. These institutions as at 31st. December 1978 are East African Building Society, Savings and Loans Ltd., and Akiba and Finance Ltd., which are housing finance companies; those housing finance companies specialise on mortgage lending for purchase of building of houses, block of flats, office building and shops; there are also specified hire purchase institutions namely Credit Finance Company, National Industrial Credit (EA) Ltd., and Diamond Trust. Others like Grindlays International Finance (Kenya) Ltd., Kenya Commercial Finance, the East African Acceptance Ltd., and Kenya Capital Corporation Ltd., are mainly involved in Merchant Banking.

These institutions are different from Commercial Banks because of their specialised nature in lending. Also unlike banks they do not offer facilities for demand deposits. They however compete for other various types of deposits with commercial banks. They also succeed in mobilising cooporate funds and other semi-official institutions funds.

Insurance companies are lincensed under the Insurance Companies Act. They mobilise long term contractual savings. They invest premiums and pay claims from interest and dividends. Their major importance is their ability to accumulate funds

which are invested in assets which require long term lending. They are safe from the ups and downs of economic activities and can formulate long range plans for development financing. By their nature and also because of the extended African family system, insurance companies are beyond savings desire and needs of low income groups. In fact, until recently, the use of the assurance as a savings media was confined mainly to non-Africans. However, organizations like trade unions have appealed to Africans to take up insurance so as to make their lives better in future.[59]

There are also a number of specialized "savings" and lending institutions in the government sector as shown on the chart 3.1. These are distinguished from Commercial Banks and non-bank private financial institutions by their more social objectives.[60] Therefore, they figure prominently in the financial structure and development efforts of their countries. Like any other developing countries Kenya was not prepared to let the development of specialized institutions proceed on the basis of the unfettered play of the market forces like in developed countries. This follows the concept of supply-leading phenomenon discussed above.

These public institutions are necessary in LDCs because private and commercial banks are profit maximising institutions and cannot effectively mobilise and allocate resources to the socially most productive sectors.

This happens because some of these sectors like the indigenous owned industry and agriculture present special financing problems. The low income groups require an institution which are not profit oriented to serve them. Private financial institutions thus leaves them out, thus creating a gap in the development process, in the supply of credit and mobilisation of resources.[61] Public financial institutions are supposed to fill this gap.

Some of these public institutions have shown some disappointment to the people they serve. For example loan processing takes too long that implementation of intended investments delay and because of high rates of default public institutions also insist on collateral security. Despite these weaknesses, these institutions are necessary. By creating public institutions, the government wants to speed economic development by encouraging through its institutional savings mobilisation and resources allocation to the inadequately served but generally most productive sectors.

The specialized lending institutions except for cooperative societies and Housing Finance Company of Kenya rely mainly on public funds, they make no effort of mobilising funds of their own and yet they are the most suited for mobilising savings of the sectors they serve.

Specialized institutions lending to agricultural sector, are Agricultural Finance Company of Kenya (AFC), Agricultural Development

Corporation (ADC), Cereals and Sugar Finance Corporation (CSFC) and various agricultural boards like the Pyrethrum Board.[62]

Public institutions giving loans to commercial and industrial sectors are Indusrial and Commercial Development Corporation (ICDC) which mainly caters for small scale and medium scale sectors; Development Finance Company of Kenya, (DFCK) and Industrial Development Bank (IDB) which serve large scale sectors.[63] Finally there is Kenya Industrial Estates serving small and medium scale industrialists.

National Housing Corporation (NHC) and Housing Finance Company of Kenya (HFCK) which work closely together are specialized public lending institutions to housing sector. They promote small and medium houses, stimulate the building industry, encourage and assist housing research. Although they assist in financing rural housing schemes, they are supposed to solve the critical problem in urban areas.

The Kenya Tourist Development Corporation (KTDC) is a specialised tourist lending institution. It lends for hotel construction, curio shops and hotel development. However broadly KTDC's main operations are financing, investigating, formulation, implementation and follow-up work relating to tourist projects.

Cooperative Societies are more suited than commercial banks and specified private financial institutions in mobilising and allocating resources for low income groups and rural areas. There are

three main types of cooperative societies which act as financial intermediaries. These are Savings and Credit Cooperative Societies (SCCS) Cooperative Savings Societies (CSC) and Cooperative Production and Credit Societies (CPSC).

SCCS are found among the salary and wage earners, and businessmen throughout the country. CSC and CPCS are saving and lending societies within the agricultural sector respectively. These two types of societies are linked.

Another type of Cooperative Societies is one where people who work together, live together or of the same ethnic group get together, contribute fixed amount per month and agree to divide between two or among three people in the group.

Cooperative Societies as financial intermediaries are quite new, they have government support which is reflected in the Cooperative Bank created for them, Ministry of Cooperative Development which gives the support and training for Societies staff; and through Kenya Federation of Cooperatives.

Specialized public saving institutions are Kenya Post Office Savings Bank (KPOSB) and National Social Security Fund (NSSF). NSSF was established under the NSSF Act, 1965 but started operating in 1966. NSSF is a long term compulsory contractural saving scheme which aims at providing funds after retirement. It is financed by contributions made by both employees and employers.

The scheme covers wage earners who are not included in the Government pension and other public superannuation schemes.

The KPOSB which inherited the role of Post Office Savings Bank which was established in 1960 under the Post Office Savings Bank Act, and which was part of the East African Community.[65] This institution will be discussed in details since it is the centre of discussion of this thesis.

In all developing countries post offices savings bank is colonial in origin. In Kenya the management and control of the Bank was for 67 years entrusted to the now defunct East African Community through the East African Posts and Telecommunications because of its ability to easily reach people in the remote areas throughout its country-wide branch network. Its aims were to promote thrift and encourage savings among ordinary citizens with the aim of mobilising personal savings for development. The Bank was particularly suited to lower-income groups who otherwise had no facilities either in urban or rural areas.

It was not possible during the period under the Community to reorganize the Bank as Uganda and Tanzania also operated on similar savings Bank under the Post Office authority. However, with the collapse of the Community, the Kenya Treasury considered it desirable to reorganise and diversify operations of the Post Office Savings Bank (POSB) in order to make it modern, and able to face the challenge posed by

changing environment and increased demand for institutions to mobilise from rural areas and low income groups. It was considered that a new state savings bank can be created out of the former POSB as a new bank. Thus KPOSB was established in January 1978 under the KPOSB Act, Chapter 493. This act is on appendix I. The new bank is adminstered by a Board of Directors responsible to the Office of the Vice President and Ministry of Finance.

The aim of KPOSB is to encourage savings and provide the means and opportunities for all people of Kenya to save, especailly the low income group and rural areas.

It is for this reason that KPOSB was chosen as an area of study. Commercial banks and private financial institutions, techniques of operation through the interest rate does not appeal to the rural areas. However, KPOSB, because of its social objectives fits well into rural areas and among the low income groups. Other public financial institutions are restricted. For example NSSF is a compulsory savings scheme for certain groups of employees only; cooperative societies is limited to its members; and HFCK is confined to the urban areas. Therefore it is only KPOSB which is nationwide and operates with social objectives.

This paper is therefore trying to find out whether KPOSB has increased savings through its social objectives. The model on financial institutions and savings developed in the previous chapter will be used. While using this Model, some

of the questions which answers will be sought are the following; What is the actual role of KPOSB as far as savings mobilisation is concerned? Does it offer adequate choice to depositors to encourage their savings habit, stimulate their propensities to save and suited to their taste pattern?

Central Bank of Kenya

A central bank in any country is an important institution which controls money supply, formulates financial policies, controls operations of all other financial institution, and banks for them, it is the Government's bank.

Before 1965, there was the East African Currency Board.[66] In 1965 a decision was made that East African Currency Board should be replaced by an East African Central Bank. However, Tanzania decided to have its own Tanzania Central Bank. Therefore Kenya and Uganda decided to go it alone. Thus, Central Bank of Kenya was formed in 1966. In LDCs central banks do not stick to the orthodox central bank operations but they are involved in promotional activities of developing an efficient credit; banking system and encouraging the development of adequate money and capital markets.

The constitutional powers of Central Bank of Kenya are laid down in the Central Bank of Kenya Act, 1966. While these powers have remained unchanged, the scope of the bank's functions has widened in subsequent legislation in the Banking Act of 1968.

The desire to give the agricultural sector cheap credit, the bank has deliberately put low interest rates. This has some negative effects.

CHAPTER 4

ANALYSIS OF STATISTICAL DATA

4.1 Data

Data used in this study are both secondary and primary. Some of the secondary data is from Post Office Savings Bank annual reports, Central Bank of Kenya quarterly and annual reports, other financial institutions' annual reports, Kenya Posts and Telecommunications Corporation reports and paper by Von Pischke 1975 which has been referred to in Chapter 2. The source of Primary data is the unpublished material and data from KPOSB Headquarters as well as interviews with the officials of KPOSB.

Due to the non-availability of data on some variables and to the constant nature of some variables regression analysis is not possible. Some data is however consistent but partial regressions might not give the correct picture. Therefore, analysis of statistical data will be descriptive although graph illustrations will be used.

4.2 Growth of KPOSB Deposits

Table 4.1 shows the behaviour of KPOSB deposits. Between 1960 and 1965 there was a general decrease in deposits. Actual withdrawals were more than actual deposits. Actual deposits decreased from Kshs.68.9 million in 1960 to Kshs.44.3 million in 1968. Actual withdrawals were always above actual deposits over the same period. They decreased

TABLE 4.1 THE GROWTH OF KPOSB TOTAL DEPOSITS ACTUAL DEPOSITS AND WITHDRAWALS PER YEAR AND NET DEPOSITS PER YEAR

1	2	3	4	5
	KSHS-MI	KSHS-MI	KSHS-MI	KSHS-MI
1960	68.9	106.9	-38	139.47
1961	67.9	80.2	-12.3	130.14
1962	65.7	73.8	- 8.1	124.99
1963	63.0	75.7	-12.7	115.12
1964	51.4	66.9	-15.5	102.12
1965	44.4	52.6	- 8.2	96.16
1966	45.7	44.6	-.9	99.40
1967	45.6	47.0	-1.4	100.32
1968	44.3	45.6	1.3	101.50
1969	45.4	43.7	+1.7	106.97
1970	50.4	46.9	3.5	112 48
1971	54.7	52.2	2.5	118.10
1972	67.0	58.1	8.9	130.37
1973	72.5	63.7	8.8	144.89
1974	83.6	71.6	12.0	159.40
1975	94.5	85.7	8.8	176.76
1976	111.8	100.0	11.8	196.79
1977	144.0	112.5	31.5	235.85
1978	178.9	145.1	33.8	279.20

Source: Post Office Savings Bank Annual Reports and Central Bank of Kenya Quarterly Reports for various years

1 - Year
2 - Value of actual deposits per year
3 - Value of actual withdrawals per year
4 - Net deposits per year = Value of actual deposits-value of actual withdrawals
5 - Total deposits as at 31st December of per year

from Kshs.106.9 million in 1960 to Kshs.47.0 million in 1967. They were low in 1966, with value of Kshs.44.6 million. This therefore means that net deposit were negative but their magnitude decreased. Net deposits decreased from Kshs.38 million in 1960 to Kshs.1.3 million in 1968, with Kshs.1.1 million in 1966. Total deposits also decreased from Kshs.139.47 in 1960 to Kshs.101.50 million in 1968 with lowest level of Kshs.96.16 million in 1965.

This negative contribution of KPOSB to total deposits between 1960 and 1968 can be explained by two factors. First in the early 1960s a lot of foreigners (Asians and Europeans) were pessimistic that independence which was to take place in 1963 would bring political and economic instability in Kenya. These foreigners withdrew their money from all financial institutions. Some of these foreigners even left the country. This pessimism occured because of the fear that an occurence like the Mau Mau rebellion would take place after independence.

Secondly, after independence many jobs were Africanised. Because these Africans were paid relatively lower salaries than expatriates, therefore their contribution to savings was low. Thirdly, savings behaviour of Africans was different from that of expatriates. Thus, from a given level of income, the propensity to save be Africans was lower than that of expatriates. The level of low savings by Africans could be attributed to the large number of dependants of Africans, the extended family system, high ...

population growth and polygamous nature of many Africans which made the number of dependants large. This reduced surplus income which would be saved. These last two reasons can be proved by the fact that total number of accounts increased during this period, but total deposits decreased, this is shown by table 4.3.

In 1967 and 1968, net negative deposits were a result of restricting deposits, withdrawals and opening accounts within territorial boundary of each country. Before this decision withdrawals, deposits and opening accounts could be done at any post office savings bank within the three East African Countries, namely Kenya, Tanzania and Uganda. After this decision, some people who had accounts in Kenya but were not residents decided to withdraw all the money they had within Kenya, to their respective countries.

Also during this time, the East African Community decided to decentralise headquarters of various corporations which upto 1967 were in Nairobi. East African Posts and Telecommunications moved to Kampala, Community Headquarters moved to Arusha and Railways and Harbours moved to Dar es Salaam. Employees of these departments which moved, and had accounts in Post Office savings bank in Kenya had to close their accounts as a result of the restriction mentioned above.

However, from 1969 to 1978, there was more actual deposits than withdrawals per year. Actual deposits increased from Kshs.45.4 million to Kshs.178.9 million in 1978. Withdrawals increased from Kshs.43.7 million in 1969 to Kshs.145.1 million in 1978. Therefore net deposits increased from Kshs.1.7 million in 1969 to Kshs.33.8 million in 1978, an increase of about 300 percent. There are however some fluctuations with net deposits of Kshs.8.8 million in 1975. Deposits increased during this period because the country enjoyed political stability. This and the preindependence pessimism show the importance of political stability in saving mobilisation.

In 1975 deposits decreased as a result of economic recession in Kenya. Inflation increased rapidly. This inflation affected the low income groups more than any other groups. These are the people who are supposed to save with KPOSB. 1977 and 1978 deposits increased sharply because of the coffee boom. This means that KPOSB captured some of this money which could then be used for investment.

Figure 4.1 shows the behaviour of total and net deposits, actual withdrawals and deposits.

4.3 Minimum deposit requirement

One of the main aims of KPOSB is to cater for the Low income groups and to encourage them to save. One way of doing this as discussed in the

Figure 4.1 - Showing the behaviour of total deposits, Actual Deposits and withdrawals and net deposits

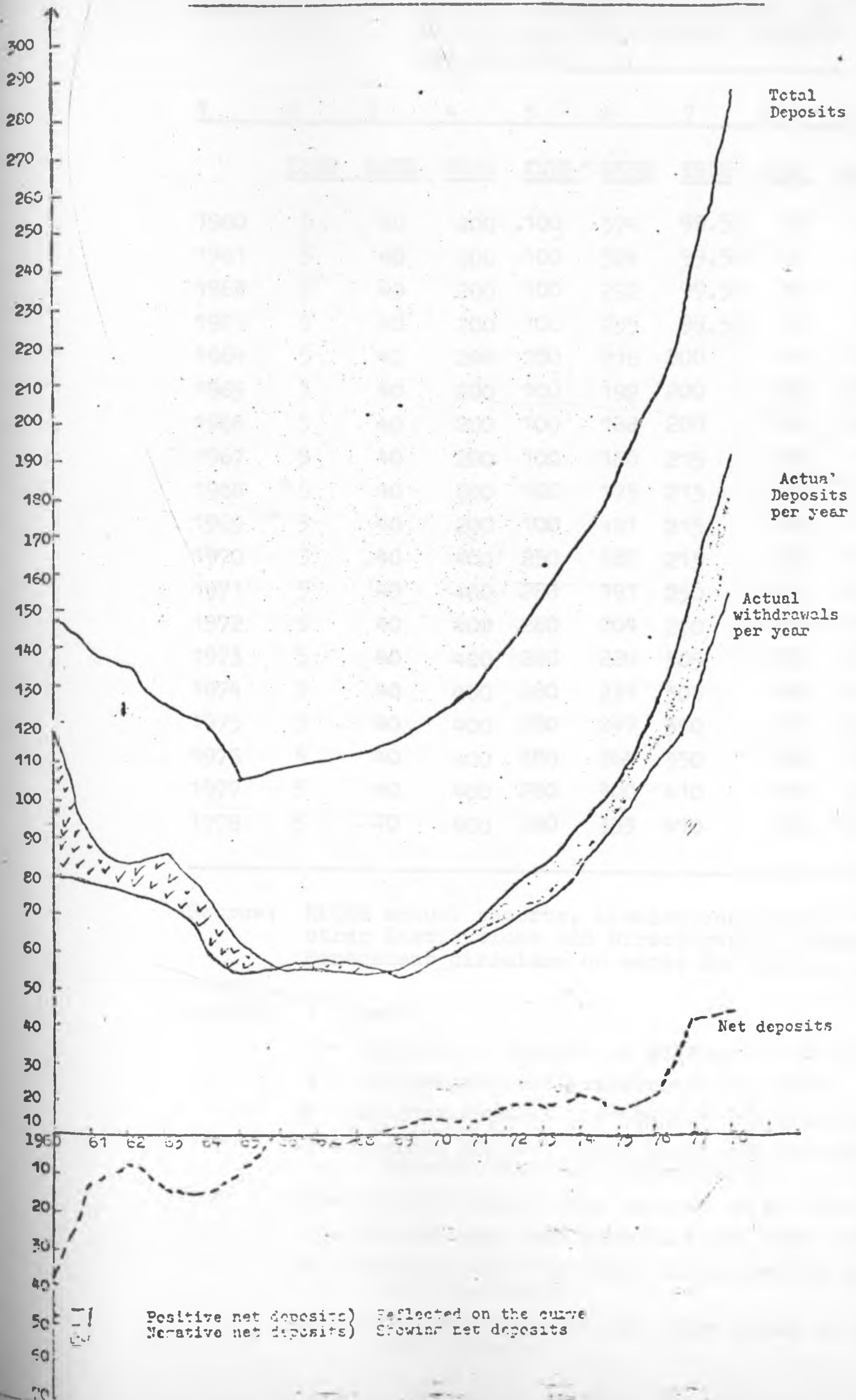


TABLE 4.2 MINIMUM DEPOSIT REQUIREMENTS AND MINIMUM WAGE AND AVERAGE DEPOSIT PER ACCOUNT

1	2	3	4	5	6	7	8	9
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
1960	5	40	200	100	374	99.50	81	81
1961	5	40	200	100	324	99.50	81	81
1962	5	40	200	100	292	99.50	81	81
1963	5	40	200	100	255	99.50	81	81
1964	5	40	200	100	216	200	166	120
1965	5	40	200	100	192	200	166	120
1966	5	40	200	100	188	200	166	120
1967	5	40	200	100	180	215	200	130
1968	5	40	200	100	175	215	200	130
1969	5	40	200	100	181	215	200	130
1970	5	40	400	250	187	215	200	130
1971	5	40	400	280	191	250	230	250
1972	5	40	400	280	204	250	230	250
1973	5	40	400	280	220	305	280	250
1974	5	40	400	280	231	305	280	250
1975	5	40	400	280	247	350	320	305
1976	5	40	400	280	264	350	330	305
1977	5	40	400	280	300	410	380	365
1978	5	40	400	280	333	410	380	365

Source; KPOSB annual reports, calculations survey from other institutions and Directorate of Personnel Management circulars or wages for various years.

Column 1 - year
" 2 - Amount for opening an account at KPOSB
" 3 - Minimum deposit requirement for KPOSB
" 4 - Minimum deposit requirement for Commercial B[illegible]
" 5 - Minimum deposit requirement for Non-bank Private financial Institutions
" 6 - Average deposit per account as at 31st Dec.
" 7 - Minimum wage for Nairobi as at 31st December
" 8 - Minimum wage for other urban centres as at 31st December.
" 9 - Basic minimum wage for other areas as at 31st December.

model of financial institutions and savings is to have a low minimum deposit requirement. Table 4.3. shows that the minimum deposit required to open an account is KShs.5 and the minimum account size is KShs.40. These figures can only be compared to minimum shares requirement of cooperative societies which is KShs.5 membership fee and initial minimum share is KShs.20.

This KPOSB's md is very low compared to that of commercial banks and other non-bank private financial institutions which as shown by table 4.2 was at least above KShs.200/- as from 1970 to 1978 before it was KShs.100/- for private financial institutions and KShs.200/- for commercial banks. The KPOSB has the lowest minimum deposit requirement. This enables the low income group to save. Non-bank private institutions though have relatively lower minimum deposit requirement are limited to urban areas and these requirements are still high for the low income group.

Comparing these minimum deposit requirement with minimum wages shown on table 4.2, KPOSB deposits are most suited for and is within reach of the low income groups. Low and fixed minimum deposit requirement enables more people to join the KPOSB as depositors as the level of minimum wage increases more people would afford to save a few shillings per month. This will be discussed in small section.

TABLE 4.3 KPOSB ANALYSIS OF ACTIVE ACCOUNTS AS AT 31 - 12 - 74 AND 31 - 12 - 75

	1974			1975		
1 Kshs	2a No	3b %	4c Kshs as	5a No	6b %	7 Kshs as
0000 - 3990	108,503	24.22	1367342.25	102431	22.53	1087,779.16
40.01 - 100.00	167752	36.55	9657198.77	168835	37.12	10,947,975.24
100.01 -200.00	55356	12.35	7680452.97	57277	12.59	8351340.09
200.01 -300.00	25162	5.60	6089898.34	26293	5.78	6631946.54
300.01 -500.00	27242	6.00	10500593.57	27621	6,07	10,912885.58
500.01 -750.00	18155	4.05	11073547.44	18173	3.99	11,228692.56
750.01 -1,000.00	10273	2.29	8879491.43	10605	2.33	9000498.88
1000.01-1500.00	12906	2.88	15569952.15	13445	2.95	16,018431.73
1500.01-2500.00	9872	2.20	19024882.99	10664	2.34	20,737991.57
2500.01-3500.00	4057	0.90	11981318.52	4561	1.00	13,597244.90
3500.01-5000.00	2792	0.62	11569712.12	3401	0.74	13,965686.37
5000.01-7500.00	2078	0.46	12556081.27	2311	0.50	14,297030.18
7500.01-10000.00	755	0.16	6666326.33	869	0.19	7,719726.13
10000.01-45000.00	715	0.15	8561738.43	808	0.17	9965464.65
15000.01-20000.00	230	0.05	3941133.19	261	0.05	4614290.85
20000.01-30000.00	217	0.04	5099320.78	248	0.05	6,105601.58
30000.01-40000.00	256	0.01	1926230.95	67	0.01	2,403642.00
40000.00-50000.00	34	0.01	15512836.50	34	0.01	1,473765.90
50000.01-60000.00	27	0.01	1456224.97	27	0.01	1,631669.39
60000.01-70000.00	27	0.01	476273.02	9	0.01	614,669.12
70000.01-80000.00	7	0.01	524310.02	10	0,01	859,696.77
80000.01-90000.00	7	0.01	524310.02	6	0.01	473,700.47
90000.01-100000.00	5	0.01	472081.49	4	0.01	368,441.47
Over -100000.00	9	0.01	1015272.67	16	0.01	2488731.67
Debit balances	5727	1.27	520769.51	6918	1.52	517866.94
Total	447964		157,587.86	454786		174,930,454.29

Source: KPOSB annual Reports for 1974 and 1975

1 - Deposit rage according to amount

2a and 5a - Number of accounts per wage

3b and 6b - Percentage of total accounts

4c and 7 - Total active deposits

@ These figures are different from those on Table 3.1 because there are only total deposits of active accounts which is lower than total deposits of both active and formant accounts

Parents have found that this low minimum deposit requirement makes it easy for them to operate accounts for their children.[67] KPOSB has several accounts for infants and children of school going age. These accounts form about 26 percent and 10 percent respectively of total depositors of KPOSB. These accounts are turned over to children when they are old enough to understand the concept of saving. However, the time of handover varies according to parents; some parents turnover the accounts when the children are 7 years old, some at the age of 18 years; and some between these two extremes. This is an important aspect of developing the concept of saving into the minds of children. However due to limited data it is not possible to compare this aspect with what is hapenning in other institutions.

Commercial Banks and non-bank financial institutions have deliberately put minimum deposit requirementshigh. This enables them to reduce their operating costs. For example some banks were interviewed in 1974 by Von Pischke after the introduction of Cooperative Savings and Credit Societies. These cooperative societies took many small accounts from the banks as is reported by Von Pischke.

> "Separate discussions held with Commercial Banks suggested that loss of numerous small accounts to the cooperative banking system has not affected the banks adversely. These small accounts were frequently characterised by small average balances and high turnover providing the banks with large administrative burdens and and disproportionately small deposit base which could be employed to generate

> revenue through lending or investment. In fact the increase in minimum deposit requirement was aimed at eliminating accounts of this sort .... one or a handful of large accounts rather than numerous small accounts."[68]

Therefore commercial Banks put high minimum deposit requirement to reduce their costs of operation. In fact in rural areas and other urban centres other than Nairobi banks enjoy handling deposits of cooperative societies as large rather than individual small accounts.

The Kenya Government's low interest rate policy whereby the spread between deposits and lending rates is a marginal figure of about 5 percent which is very low. This means that the cost of providing low income group with financial services is relatively high and cannot produce any profit. Therefore it is not possible for profit maximising institutions to serve the sectors adequately. There is evidence that banks have not actively Solicited accounts from the smallest savers since 1965[70] because of the low interest rate policy. This therefore has repressed financial services offered by banks and other private financial institutions offer to the low income groups and rural areas. This is one of the areas where the social objective of the KPOSB is seen. This therefore shows that KPOSB is not duplicating services of other institutions.

KPOSB uses services of Kenya Posts and Telecommunications Corporation facilities and personnel to transact its business. KPOSB pays for these services at a rate of =/75 cents per transaction. In some very remote areas without post office the bank uses district officers and private contractors which do Post Office work and the Bank pays at the same rate. This system, though it has some ~~of its~~ disadvantages as will be discussed later, enables the bank to accept low minimum deposit requirements because it reduces its costs. For example it does not pay for rents, security, salaries for bank clerks and petrol running around and checking/supervising the work. This enables the Bank to penetrate in remote areas where costs is assumed to be high. Also cooperative societies are able to mobilise small deposits because in most cases volunteers do cooperative work, sometimes government facilities and producer cooperative societies offices and personnel are used. These facilities help them reduce their costs.

KPOSB being a public institution gets financial support from the Treasury. This is to enable the Bank to fulfil its social objective. This kind of financial support is not available for commercial banks and private financial institutions. Therefore other institutions cannot take the risk of effectively serving low income groups and rural areas.

Average account size, as shown by table 4.2. decreased from Kshs.374 in 1960 to Kshs.175 in 1968. Then it increased from Kshs.181 in 1969 to Kshs.333 in 1978. This trend is similar to that of total deposits, actual deposits and net deposits. This shows that average account size is well above minimum deposit requirement of Kshs.40. This shows that depositors gain some desirable goals in using KPOSB deposit facilities. Thus KPOSB fulfills real needs without whose existence these savings would have been forgone. This would happen because deposits with some of these depositors are not catered for by other institutions. Even average deposit transactions per year as shown by table 4.2. is well over minimum deposit requirement of Kshs.40. The above discussions show that KPOSB existence does not merely represent a transfer of deposits from other institutions but institutionalise idle cash balances.

Table 4.3. indicates that the majority of depositors of KPOSB are found in the ranges of 0.000 - 0.39 and Kshs.40.00 to 99.01 for 1974 and 1975. The former group represent 24.22 and 23.53 percent of total deposits for 1974 and 1975 respectively and the latter group 37.55 percent and 37.12 percent for 1974 and 1975 respectively. In total these people form 51 percent and 50 percent in 1974 and 1975 respectively. It is assumed that the majority of depositors are from low income groups because those in the high income group have better alternatives.[71] Also parents who can afford to open accounts for their kids are few and this is not concentrated on these two groups, they are

spread in all categories. It can therefore be concluded that KPOSB fufills real needs because people with these kind of deposits are not catered for by other financial institutions except for cooperative societies which are restricted to its members. Therefore without KPOSB over 300000 people with deposits below Shs.200 and their deposits would be left out in savings cycle.

It was said that minimum deposit requirement is Kshs.40, however, as shown by table 4.2 there are some people whose deposits are below Kshs.40. This tendency has two explanations. First, some of these people have just opened their accounts and are beginning to build them up to the level of Kshs.40/- and above. It has already been said that KPOSB require only Kshs.5 to open an account, however, the account does not become operative until Kshs.40 and above is reached. Second, some of these are dormant accounts that is those which are opened but are not operated. This however does not necessarily indicate an absence of savings. However there is no data to indicate what proportion of accounts just opened and proportion of dormant accounts.

Table 4.3. shows that KPOSB is not confined to small savers but it also serves high income groups, this is indicated by depositors with over Kshs.10,000; some even save Kshs.100,000 which is the maximum one is allowed to deposit in KPOSB in one account. The Bank confirms that 99 percent of these big deposits are from individuals. Most of these accounts have cummulative effects. These deposits are beyond the reach of low income groups. What attracts big depositors

is that interest from KPOSB savings are not taxed while in other institutions interest on deposit of Kshs.10,000 and above are liable to taxation. Those with Kshs.10,000 and above from about 10 percent of total depositors, and are 1314 in 1974; and 10 percent and 1490 depositors in 1974. These deposits are Kshs.25,000,070/72 which is 15.86 percent of total deposits in 1974.

Those with largest deposits are the medium level depositors that is between Kshs.750 to Kshs.2,500/-.

4.4 Number of Depositors

Table 4.4 and figure 4.2 shows that there is no systematic behaviour of number of accounts opened and closed. There are fluctuations which shows negative correlation. During the early sixties when there was a problem with deposits as has been explained in section 4.2 number of accounts closed increased while number of accounts opened decreased. Reasons are similar to those in section 4.2.

Figure 4.2 shows that number of accounts closed increased in the early sixties. This is because of pre-independence pessimism already discussed. The number of accounts opened declined because of the same reason. People were not sure of the future so were not opening accounts as rapidly as a normal situation would have warranted. Between 1964 and 1967 number of accounts opened fluctuated while number of accounts closed decreased. Fluctuations occured because many Kenya citizens were gaining

TABLE 4.4. NUMBER OF ACCOUNTS OPENED AND CLOSED AND TOTAL NUMBER OF ACCOUNTS

1	2	3	4	5
1960	45570	12774	32796	372710
1961	41432	12432	29000	401710
1962	39377	12552	26825	428535
1964	34527	12475	22052	472609
1965	35697	9876	25821	49720
1966	36481	9027	29454	528181
1967	35833	6679	29154	557325
1968	35790	11899	23891	581226
1969	29748	23731	6071	587243
1970	36320	21637	14683	601926
1971	38593	22706	15886	617813
1972	42005	19656	22349	640162
1973	37560	18802	18949	659116
1974	44106	14446	29660	688776
1975	39384	11511	27873	716649
1976	41145	10988	30157	746806
1977	50563	N/A	N/A	788534
1978	57525	6721	50804	839358

Source: KPOSB ANNUAL REPORTS

Column 1 - Year
" 2 - Number of Accounts opened per year
" 3 - Number of Accounts closed per year
" 4 - Net number of accounts per year
" 5 - Total deposits as at 31st December

momentum to join fully in the development of the economy while accounts closed decreased because after independence there was some stability therefore people relaxed and were not closing their accounts as rapidly as they did before independence. 1967, 1968 to 1969, number of accounts closed increased because of decentralization of community corporation's headquarters and confinement of withdrawals and deposits within territorial boundaries as already discussed. Accounts opened also declined for the same reason. Those who would have opened their accounts left and it took Kenya sometime before accounts opened began to increase and to gain momentum.

Between 1969 and 1972, accounts opened increased while accounts closed generally decreased. These happened because at this time Kenya's economy was relatively better than the previous years.

In 1973, the KPOSB introduced photograph identification on passbooks. This scared a lot of people and as a result number of accounts opened declined and number of accounts closed increased. However in 1974 when people got used to this type of identification accounts opened increased. But this increase did not last because in 1975, inflation made number of accounts opened to decline and accounts closed increased.

In 1976, salaries were increased. This was immediately followed by the coffee boom which increased the number of depositors as shown by table 4.4 and figure 4.2. This number of total depositors forms a large proportion of savers in

Figure 4.2 Number of accounts opened and closed and Net number of accounts

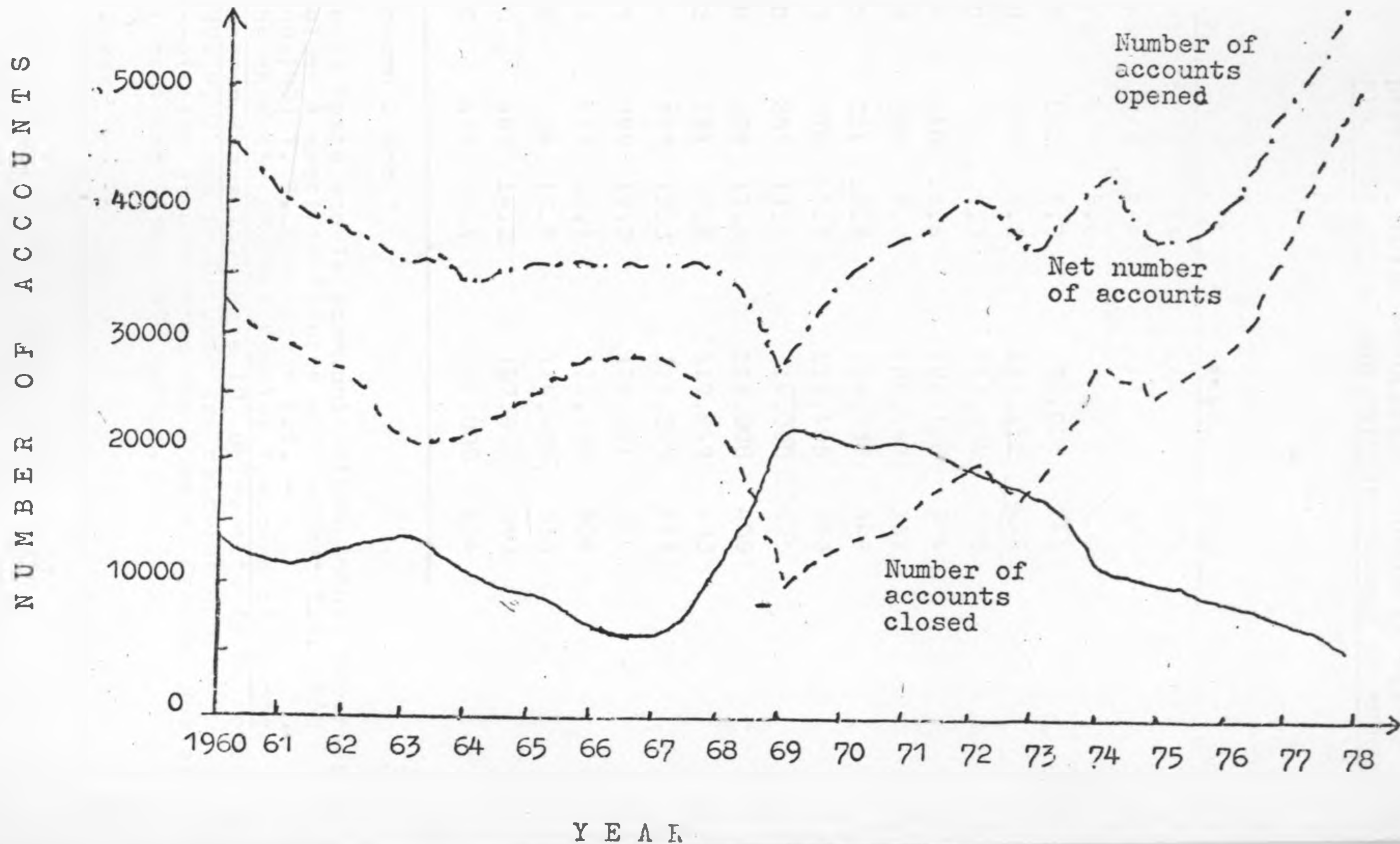


TABLE 4.5 NUMBER OF DEPARTMENT ' AND SUB-BRANCH POST OFFICES, TOTAL POPULATION, NUMBER OF PEOPLE PER POST OFFICE AND POTENTED NUMBER AS KPOSB

1	2	3	4	5=4÷2	6=2+3
1960	N/A	N/A	N/A	N/A	N/A
1961	N/A	N/A	N/A	N/A	N/A
1962	N/A	N/A	8.5		
1963	89	152	8.9	100,000	241
1964	90	159	9.1	101,112	249
1965	90	179	9.3	103,334	269
1966	94	210	9.6	102,128	304
1967	93	239	9.9	106,453	332
1968	95	251	10.9	114,737	346
1969	97	276	11.3	116,495	373
1970	100	285	11.4	114,000	385
1971	100	309	11.5	115,000	409
1972	102	331	12.2	117,647	433
1973	104	357	12.3	118,269	461
1974	107	399	12.7	118,691	506
1975	113	423	13.1	115,929	536
1976	118	436	13.5	114,406	554
1977	130	463	14.0	107,692	593
1978	150	434	14.4	96,000	634

Source: Column 2 and 3

Kenya Posts and Telecommunications Annual Reports; Column 4 specifi: figures with stars* i.e. 1969 and 1971 T. B. Kabwegyere T.B. - The changing African Family: The case of Akamba Eastern Kenya 1974 Page 10, University fo Nairobi 1974 P.01 and in Between are calculated using a population growth rates provided by Central Burial of statutes after 1979 census.

Column 1 - Year
Column 2 - Number of depatmental post offices
Column 3 - Number of Post Office sub-branches
Column 4 - Total population of Kenya in million
Column 5 - Number of people per post office semi bank
Column 6 - Potential number of KPOSB branches
*some of post office sub-brances do savings bank business but these are very few and their number do not available, therefore there might be some little error on our column 5 but the trend will not be changed by this error.

Figure 4.3: The growth of total number of accounts

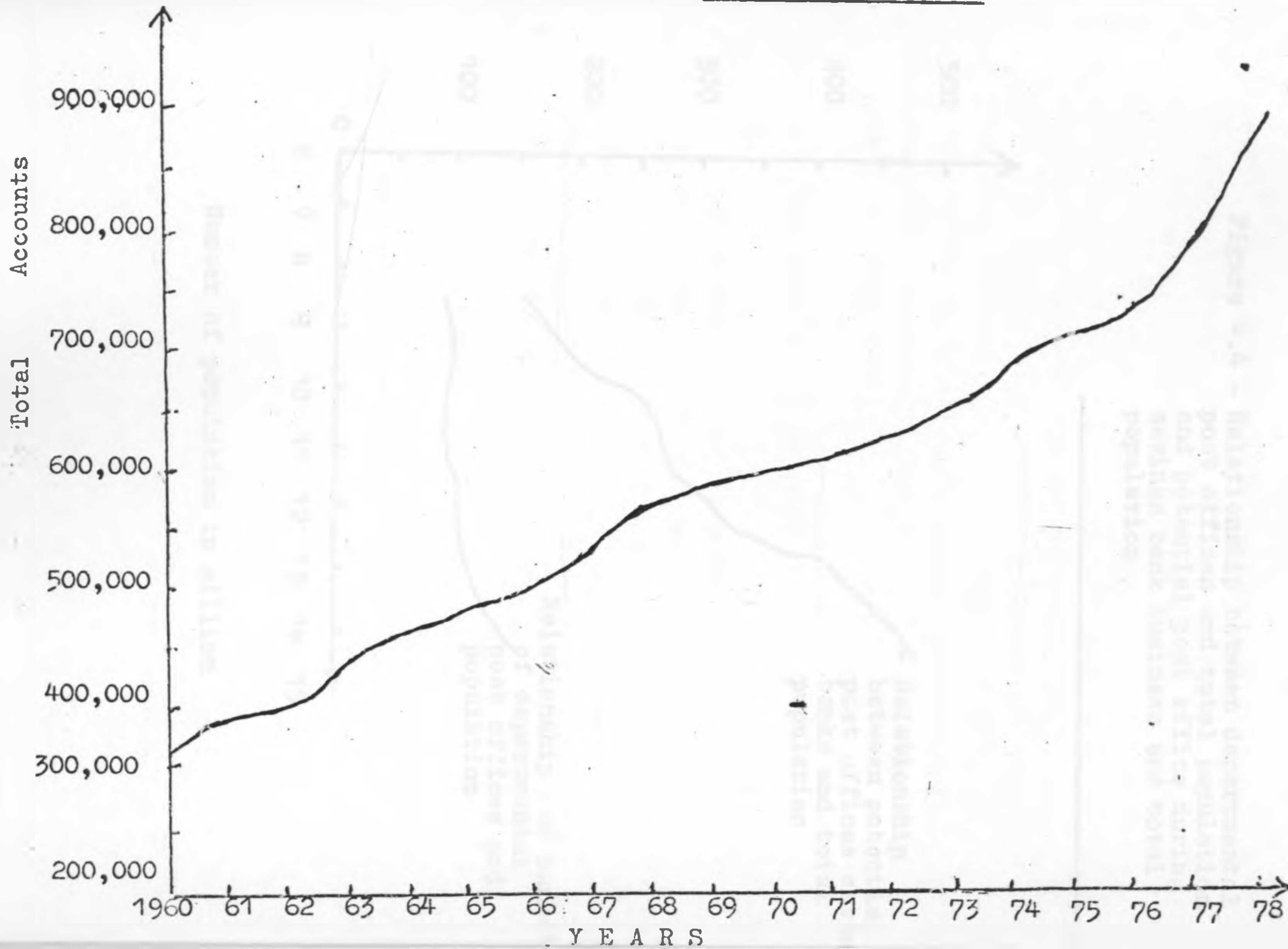
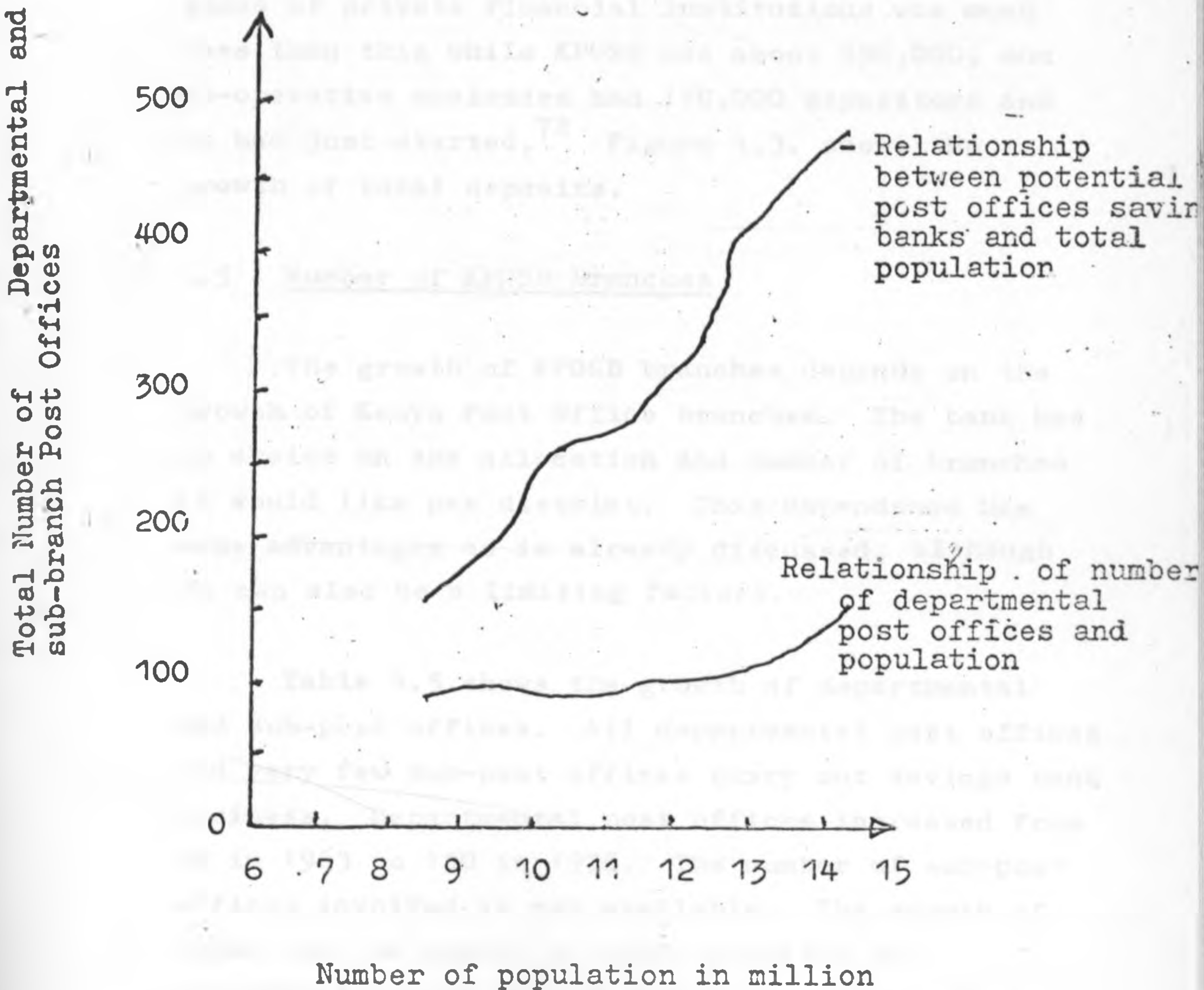


Figure 4.4 - Relationship between departmental post offices and total population and potential post office during savings bank business and total population



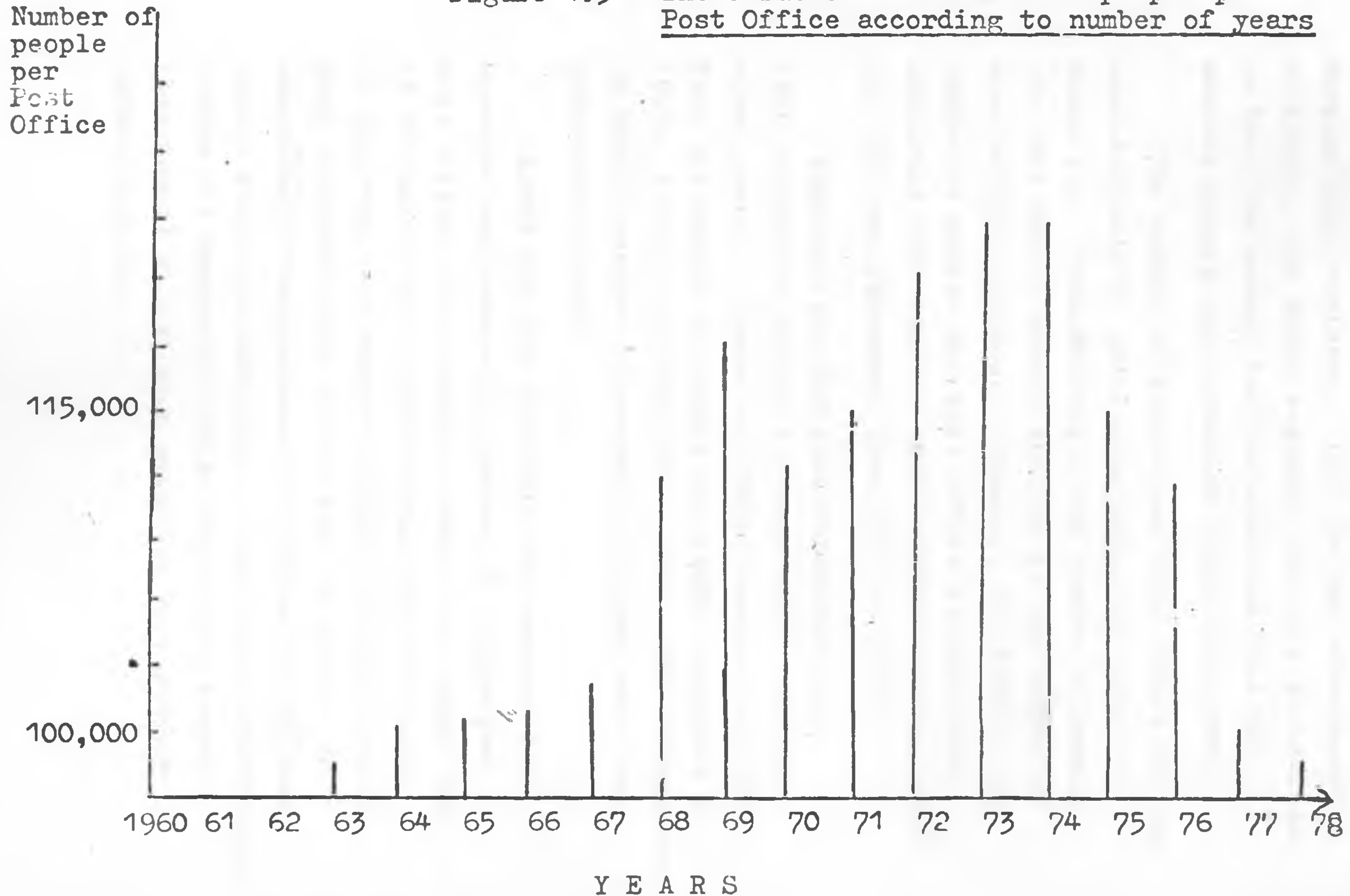
Kenya. It is estimated that except for cooperative savings and credit societies there are more savings depositors in KPOSB than in other banks combined. For example J. D. Von Pischke carried a survey and found out that in 1973 savings accounts in commercial banks was appromixately 300,000, and those of private financial institutions was much less than this while KPOSB was about 690,000, and Co-operative societies had 110,000 depositors and it had just started.[72] Figure 4.3. shows the growth of total deposits.

4.5 Number of KPOSB Branches

The growth of KPOSB branches depends on the growth of Kenya Post Office branches. The bank has no choice on the allocation and number of branches it would like per district. This dependence has some advantages as is already discussed, although it can also be a limiting factors.

Table 4.5 shows the growth of departmental and sub-post offices. All departmental post offices and very few sub-post offices carry out savings bank business. Departmental post offices increased from 89 in 1963 to 150 in 1978. The number of sub-post offices involved is not available. The growth of those and the growth of KPOSB deposits are correlated as shown by figure 4.4. This indicates that the growth of KPOSB offices have contributed to the growth of deposits.

Figure 4.5 - The structure of number of people per Post Office according to number of years



Very few sub-post offices undertake savings Bank business. This is the arrangement of KPOSB. The Banks argument for this limitation is that the demand for its branches does not warrant having more branches than it has now.

The number of people per post office savings bank followed no particular trend as shown by table 4.5. Theoretically, the number of people per post office should decline as the number of Post Offices increase. However, for KPOSB, the number of people per post office savings bank increased from 1960 to 1968 reduced between 1969 and 1970 and increased from 1973 to 1978.

Explanations for this behaviour is a fast population growth in Kenya after 1970 and slow growth of number of KPOSB branches in 1960s. Thus the number of people per KPOSB increases in 1960s, except for 1969-1970. After 1974 the number of KPOSB branches increased at higher rate than population growth.

KPOSB has the possibity to increase its branches and reduce the number of people per post office. For example, table 4.5. shows that if all post office sub-branches had been used by the bank, the number of KPOSB branches would have increased from 241 in 1960 to 654 in 1978 compared to the increase fr m 89 to 150 in the same period which the bank used. This would tremendously reduce the number of people served per branch. Theoretically, the bank would in turn provide better services.

4.6 Geographical Distribution

Data on the growth of KPOSB according to urban and rural areas through the period of our study is not available. However, information for 1978 is available. This information is shown on chart 4.1 and figure 4.5. which shows that KPOSB has a wide geographical distribution. KPOSB has 27 percent of its branches in rural areas compared to commercial banks which concentrate in urban areas. Charts 3.2 and 3.3 show that commercial banks concentrate their main branches in the urban areas while rural areas have more mobile units and agencies. Mobile bank units have some disadvantages as will be discussed below. In total commercial banks have 26.81 percent of all main branches, agencies, sub-branches and mobile bank units serving rural areas. Yet these banks are many, 15 in all while KPOSB is only one institution.

Tables 4.6 a-e show that the bank gets resources from its rural branches, which are not just opened for social objectives but are used for savings mobilisation. In total the bank gets about 15 percent of its total deposits from the rural areas. Table 4.7 shows that about 3 percent of total deposits come from both agencies and district officers. Also, about 12 percent of deposits of posts and telecommunications this makes 15 percent of rural areas deposits. However this proportion seems to be declining as shown by tables 4.6 a, 4.6 e and table 4.7.

Table 4.6 b shows that except for a few months there is negative net deposits from Nairobi. Even table 4.7 b shows that proportion of withdrawals is more than deposits. The withdrawal is large, between 12 and 20 percent of total withdrawal while proportion of total deposits is below 9 percent except 6 times. This would indicate that people deposit money in the rural areas and withdraw from Nairobi and probably other urban areas. This is a sign of rural-urban migration, which in turn is a sign of unbalanced regional development and sign of under-development. This is a transfer of resources from the rural areas where these funds are badly needed for development purposes to relatively developed urban area. This happens because of easy withdrawal and deposit facilities as will be discussed in section 4.7. This problem of resource transfer is increased by the fact that KPOSB does not give loans but instead buys Government bonds by deposits. The government who determines where resources go has not developed rural areas as it has developed urban areas.

KPOSB has a wide geographical distribution because it uses the services of posts and telecommunications corporation which reach all corners of the country. For example every district must have a departmental post office and almost all locations have post office branches. The post office carry out savings bank business. Even where Post Office hires private contractors or use district officers to do its business, these facilities are also extended to the savings bank. Although the bank pays for these services, it reduces the bank's problems of looking for personnel, appropriate building and security in rural areas, and also reduces the bank's costs as already discussed above.

Chart 4.I

List of Controlling Post Offices and their surbordinate offices as at December, I978

A. Controlling office - Nairobi

I.	Kiambu	2.	Ruiru
3.	Thika	4.	Muranga
5.	Limuru	6.	Kikuyu
7.	Eastleigh	8.	Lower Kabete
9.	Makongeni	IO.	Karen
II.	Westlands	I2.	Travin Road
I3.	Quarry Road	I4.	Uplands
I5.	Embasi	I6.	Ngong Road
I7.	Jamhuri Park	I8.	Enterprice Road
I9.	Mbagathi	2O.	Gurdwara Road
2I.	Garissa	22.	Desai Road
23.	Lavington Green	24.	Kabete
25.	Kirinyaga Road	26.	Ronald Ngala
27.	Mandera	28.	Mathare Valley
29.	Kijabe	3O.	Kagemi
3I.	Elwak		

chart 4.I contd.

B. Controlling Office - Mombasa

I. Dock B.O.
2. Voi
3. Lamu
4. Malindi
5. Kilifi
6. Makupa
7. Taveta
8. Likoni
9. Kilindini Road
IO. Wundanyi
II. Majengo B.O.
I2. Kikambala
I3. Changamwe
I4. Kwale
I5. Hola
I6. Mwatate
I7. Nyali
I8. Mariakani

C. Controlling Office - Kisumu

I. Yala
2. Mihoroni
3. Maseno
4. Miwani
5. Ukwala
6. Siaya
7. Lwanda
8. Funyala
9. Bondo

D. Controlling Office - Nakuru

I. Naivasha
2. Elburgon
3. Gilgil
4. Nyahururu
5. Molo
6. Rongai
7. Njoro
8. Narok
9. Eldama Ravine
IO. Ol'Joro Orok
II. Ol'Kalou
I2. Rumuruti
I3. Evbukia
I4. South Kinangop
I5. North Kinangop
I6. Timber Mill Road
I7. Karbarnet
I8. Maralal
I9. Bondoni

Chart 4.I contd.

E. <u>Controlling Office - Eldoret</u>

I.	Kipkapus	2.	Kitale
3.	Moja Bridge	4.	Kapsabet
5.	Moriben	6.	Turbo
7.	Endebess	8.	Nandi Hills
9.	Lodwar	IO.	Kapenguaria
II.	Iten	I2.	Lokitany
I3.	Soy		

F. <u>CONTROLLING OFFICE - Nyeri</u>

I.	Nanyuki	2.	Embu
3.	Karatina	4.	Kiganjo
5.	Keruguya	6.	Mureiga
7.	Naro Moru	8.	Mukurwe-ini
9.	Othaya	IO.	Sagana
II.	Makuya	I2.	Kianyaga
I3.	Wanguru		

G. <u>Controlling Office - Machakos</u>

I.	Kitui	2.	Makindu
3.	Magadi	4.	Kajiado
5.	Athi River	6.	Kangundo
7.	Namanga	8.	Loitokitok
9.	Mutomo	IO.	Mwingi
II.	Sultan Hamud	I2.	Kibwezi
I3.	Kikima	I4.	Makueni
I5.	Nunguni	I6.	Kisasi

H. <u>Controlling Office - Kakamega</u>

I.	Maragoli	2.	Mumias
3.	Bungoma	4.	Butere
5.	Webuye	6.	Busia Market
7.	Tiriki	8.	Kimilili
9.	Vihiga		

Chart 4.I contd.

I. Controlling Office - Kericho

I.	Kipkekion	2.	Koru
3.	Songhor	3.	Sotiki
5.	Londiani		

J. Controlling Office - Meru

I.	Isiolo	2.	Marsabit
3.	Chogoria	4.	Maua
5.	Moyale	6.	Chuka

K. Controlling Office - Kisii

I.	Homa Bay	2.	Kendu Bay
3.	Suna	4.	Keroka
5.	Oyugi's		

chart 4.2

LIST OF KENYA COMMERCIAL BANK BRANCHES SUB-BRANCHES AND MOBILE CENTRE AS AT DECEMBER I978

BRANCH	SUB-BRANCH	MOBILE CENTRE
NAIROBI AREA		
Moi Avenue	Kikuyu	Dagoreti
Harambee Avenue	Gisigiri-gisi	Ngecha
Industrial Area	Eastlands	Wangige
B.A.T.	E.A. Comm-unity	Karau Location
Kenyatta Avenue		Ndeiya
Kenyatta conference Centre		Sigona Golf Club
Kipande House		Thogoto Juniour
Mwindi Mbingu Street		Karau
Tom Mboya Street		
Other Districts		
Bungoma		
Chuka	Kabeche	Muthambi
		Marima
		Igoji
		Kionya
		Kanyakine

Chart 4.2 contd.

BRANCH	SUB-BRANCH	MOBILE CENTRE
		Luhano
		Rwambwa
		Port Victoria
		Nangina Girls
		Nangina Hospital
Sotik	Bormet	Meptalal
Thika	Kangundo	
	Gatura	
	Kiruara	
	Githumu	
	Kandara	
	Kagunduini	
	Yala	
Town Centre Mombasa		
Treasury Square	Jomo Kenyatta	Kimkala
	Mwembe Tayari	Vipingo
	Mariakani	Takaungu
	Kilifi	Waa
		Msambweni
		Ramisi
		Shimoni
		Shimba Hills
		Matuga
		Kenya Navy
		Kinango
		Kaloleni
		Rabai
Voi		Kwale
Webuye	Kimilili	
Wundanyi	Taveta	Muaktau
		Bura Hills
		Bura Station
		Mwatale

of these Branch Sub-branch of Post Offices located in the urban areas while 37 percent in the rural areas

chart 4.2 contd.

Commercial Bank Contd.

Eldoret	Nandi Hills	Kapsabet
		Ainabkoi
		Chepkoria
Embu	Runyenjes	
Githunguri	Kiriita	Limuru
		Kijabe
		Kamburu
		Kagaa
		Katamaiyu
		Kagwe
Kakamega	Butere	Iregi T.T.C.
	Serem	Mbale
Kangema		Gitugi
		Gikoe
		Gacharageini
		Kihoya
		Kanyenyaini
		Tuthu
		Kiruri
		Ichichi
Karatina		
Kericho	Londiani	Kopkelion
Kerugoya	Ngurubani	
Kiambu	Banana-Hill	
	Gatundu	
	Ruiru	
Kilindini-Mombasa		
Kisii	Keroka	Kebirigo
		Makairu
		Nyamira
Kisumu	Luanda	Yala Mission
	Mihoroni	Yala Shops
	Tamu	Chemelil
		Mihoroni

chart 4.2 contd.

Commercial Bank Contd.

BRANCH	SUB-BRANCH	MOBILE CENTRE
		Ahero Market
		Maseno Institute
		Maseno Sec. School
		Aluor
		Akala
Kisumu cont.		Kambare
		Ahero Scheme
		Chemase
		Kibisigo
		Bondo
		Koru
		Chemsoi
Machakos	Kajiado	Kibwezi
		Makueni
		Masai
		Kikuyuni
		Nziu
Nyahururu	Ol'Kalou	
Nyeri		
Othaya	Mukurweini	
Siaya	Ukwala	Siranga
		Sigome
		Sienga
		Nyangwaso
		Ngiya
		Siega
		Bumala
		Funyula
		Busia
		Amukula
		Mambale
		Butula
		Barober
		Ugunja
		Nyandora
		Uranga

chart 4.3 GEOGRAPHICAL DISTRIBUTION OF COMMERCIAL BANKS

COMMERCIAL BANKS:

NAME OF INSTITUTION		NAIROBI	OTHER URBAN AREAS	RURAL AREAS	TOTAL
Bank of Baroda	a)	I	-	-	I
	b)	I	3	-	4
	c)	I	I	-	2
	d)	-	-	-	-
	e)	-	-	I	I
Bank of India	a)	I	-	-	I
	b)	I	I	-	2
	c)	-	-	-	-
	d)	-	-	-	-
	e)	-	-	-	-
Barclays Bank International Limited	a)	I	-	-	I
	b)	9	20	I	20
	c)	I	2	3	6
	d)	4	5	IO	I9
	e)	-	-	-	-
Commercial Bank of Africa	a)	I	-	-	I
	b)	I	I	-	2
	c)	I	-	-	I
	d)	2	-	-	2
	e)	-	-	-	-

chart 4.3 contd.

Kenya Commercial Bank	a)	I	-	-	I
	b)	6	30	I	36
	c)	8	20	I8	32
	d)	I	30	34	64
	e)	-	-	-	I
National Bank of Kenya	a)	I	-	-	I
	b)	2	3	-	5
	c)	-	-	-	-
	d)	-	I	I	2
	e)	-	-	I	II
Totals:	a)	IO	-	-	-
	b)	32	8I	5	II8
	c)	II	26	2I	58
	d)	7	36	44	87
	e)	I	-	-	3

DISTRIBUTIONS IN PERCENTAGES

	NAIROBI	OTHER URBAN AREAS	RURAL AREAS
a)	IOO	-	-
b)	27	68	5
c)	I9	45	36
d)	8	4I	5I
e)	33	O	66

FOOTNOTE:

a - Head Office
b - Main Branches
c - Sub Branches
d - Agencies
e - Mobile Bank Units

Source: Central Bank of Kenya

chart 4.3 contd.

CONTINUED

Cooperative Bank of Kenya	a)	I	-	-	I
	b)	-	-	-	-
	c)	-	-	-	-
	d)	-	-	-	-
	e)	-	-	-	-
City Bank of New York	a)	-	-	-	-
	b)	I	-	-	I
	c)	-	-	-	-
	d)	-	-	-	-
	e)	-	-	-	-
First National bank of Chicago	a)	-	-	-	-
	b)	I	-	-	I
	c)	-	-	-	-
	d)	-	-	-	-
	e)	-	-	-	-
General Bank of Netherlands	a)	-	-	-	-
	b)	I	-	-	I
	c)	-	-	-	-
	d)	-	-	-	-
	e)	-	-	-	-
Grindlays Bank International Kenya Limited	a)	I	-	-	I
	b)	I	I	-	2
	c)	-	-	-	-
	d)	-	-	-	-
	e)	-	-	-	-
Habib Bank	a)	I	-	-	I
	b)	-	I	-	I
	c)	-	-	-	-
	d)	-	-	-	-
	e)	-	-	-	-

TABLE 4.6a MONTHLY DEPOSITS AND WITHDRAWALS OF POST OFFICE BRANCHES OTHER THAN NAIROBI

YEAR		JAN.	FEB.	MARCH	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.
73	D	4764076	5184476	6583610	5993318	5425001	5407728	5014580	5075569	5100630	4980974	4809067	5040370
	W	4160705	3253278	3639048	3760684	4346745	3396984	3540147	4068380	3572065	3717017	3589918	3872212
(74)	N	603371	1931198	2944562	2032634	1078256	2010744	1466433	1007189	1528565	1263957	1219149	1168158
	D	5138462	5549785	6079826	5369134	5702389	5835795	6042217	6323606	6090509	6160210	6463267	7407005
	W	4097371	33522146	3622434	4075246	4338690	3788676	4376720	4615136	4219101	4068423	4232645	5269801
	N	1041091	2197639	2457392	1293888	1363699	2047119	1665497	1708470	1871408	2091787	2230622	2137204
75	D	6618853	6204050	6701452	6545706	6458696	6528892	6613522	7110117	7180554	7416484	825233	5736972
	W	5944667	4244704	4637757	6078720	5553136	4876699	5415443	5548771	5560507	5525924	5135049	5171673
	N	1574186	1959346	2063695	466986	405560	1652193	1198079	1561346	1620047	1890560	3117282	565299
76	D	7839744	7675099	8413869	7777660	8504462	844404	8389504	8477220	8129996	9032087	9985620	548099
	W	6618028	5293188	6029066	653883	6038942	5823822	6366134	6923113	6600376	6340173	622502	252986
	N	1221662	2381911	2384803	1246777	2465520	2620219	2023370	1554107	1527620	2691914	3763118	395113
77	D	8927442	9467181	10618227	9608339	10370390	11340059	11243481	11836211	11470838	12453447	14106160	12726220
	W	7507390	5883685	6946403	7388224	6975683	6632080	7458827	8578148	7661505	7621109	7563536	11182433
	N	1420052	3584496	3671824	2220115	3394707	4707979	3784444	3258063	3809333	4832338	6442624	2543787
78	D	11759829	12464854	13331455	13105197	14018795	15170550	14219678	12822763	13772157	14067371	15159471	13030363
	W	9484111	7450215	8640075	9136744	9473883	8517388	9660967	10860888	9570896	9324161	9569132	11053112
	N	2275718	5014639	4691380	3968453	4544992	6653162	45558711	1962075	4401261	5283210	6190339	977251

Source: - KPOSB Unpublished data

D - Deposits
W - Withdrawal
N - Net deposits - D - W

TABLE 4.6C MONTHLY DEPOSITS, WITHDRAWALS AND NET DEPOSITS OF CLOSED WARRANTS

	JAN	FEB	MAR	AP.	MAY	JUNE	JULY	AUG.	SEPT	OCT.	NOV.	DEC
[illegible]	[illegible]	[illegible]	222867	311006	959372	109588	356561	633591	[illegible]	[illegible]	380215	1177[illegible]
[illegible]	[illegible]	[illegible]	-222867	-311006	-559372	-109588	-356561	-633591	[illegible]	[illegible]	-380215	-117[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	752363	568615	37477[illegible]	974792	135620	[illegible]	[illegible]	359230	N/A
[illegible]	[illegible]	[illegible]	[illegible]	752863	568613	374776	974792	135620	[illegible]	[illegible]	359230	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	370145	702923	399430	[illegible]	320	[illegible]	[illegible]	[illegible]	104[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	370145	702923	599420	98226	320	[illegible]	[illegible]	[illegible]	104[illegible]
[illegible]	[illegible]	[illegible]	393064	[illegible]	367448	286166	382339	360165	[illegible]	[illegible]	[illegible]	321[illegible]
[illegible]	440442	[illegible]	399702	189655	269310	218336	212167	376216	[illegible]	[illegible]	[illegible]	437[illegible]
[illegible]	440442	[illegible]	399702	189655	269310	218336	42167	376216	[illegible]	[illegible]	157425	437[illegible]
[illegible]	[illegible]	276933	255674	199465	649081	198337	519023	130973	300	-	[illegible]	325[illegible]
[illegible]	91305	276933	255674	199465	649081	198337	519023	130973	300	-	[illegible]	325[illegible]

Source = KPCSB unpublished data

TABLE 4.6D MONTHLY DEPOSITS, WITHDRAWALS AND NET DEPOSITS FOR POSTAL AGENTS

YEAR		JAN.	FEB.	MAR.	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.
1973	D	185399	195773	226518	237904	248498	221582	183828	222993	1999800	200653	134361	214427
	W	116493	92389	111008	112663	144086	109586	97844	109499	102451	110466	74953	119201
	N	68906	103384	115510	125241	104412	111996	85984	113494	97349	90187	59406	91226
1974	D	202081	212255	229444	212358	235344	235741	224198	269350	264958	271539	231303	216680
	W	117070	99939	109903	117243	132165	118405	122239	135620	118433	121355	117916	117004
	N	85011	112316	119081	102395	103179	117336	101959	1 3730	146475	150184	113387	99676
1975	D	267875	203570	231840	213698	186734	169314	175407	119705	195237	193265	223054	212724
	W	167507	111196	114126	150142	116045	107324	102243	114462	127272	120329	115168	128584
	N	40368	92374	117714	63556	70689	61990	73164	55243	67965	75936	223054	74140
1976	D	176408	210706	256083	191819	167680	223978	211292	262998	228089	235846	278143	271143
	W	124947	96364	124781	113914	99244	114116	118943	150919	137883	136993	125862	176922
	N	51461	114342	131302	77905	68436	109862	923349	112079	90206	98853	153283	94772
1977	D	242753	251932	211698	220079	288410	280927	296780	301699	308420	286029	322979	287979
	W	146389	111914	92787	103447	102856	114118	111511	131683	115668	128224	116923	156205
	N	96364	140018	118911	116632	185504	166809	185209	170016	192752	157805	206056	131774
1978	D	246445	192797	216198	294237	282455	308466	292955	234550	262545	249976	236615	275521
	W	127013	86941	79518	138337	127597	132676	130318	130114	136779	118198	88084	139963
	N	119432	105856	136680	155900	154858	176790	162637	104436	125766	131778	148531	135558

Source: KPOSB unpublished

D - Deposits

W - Withdrawals

N - Net Deposits = D - W

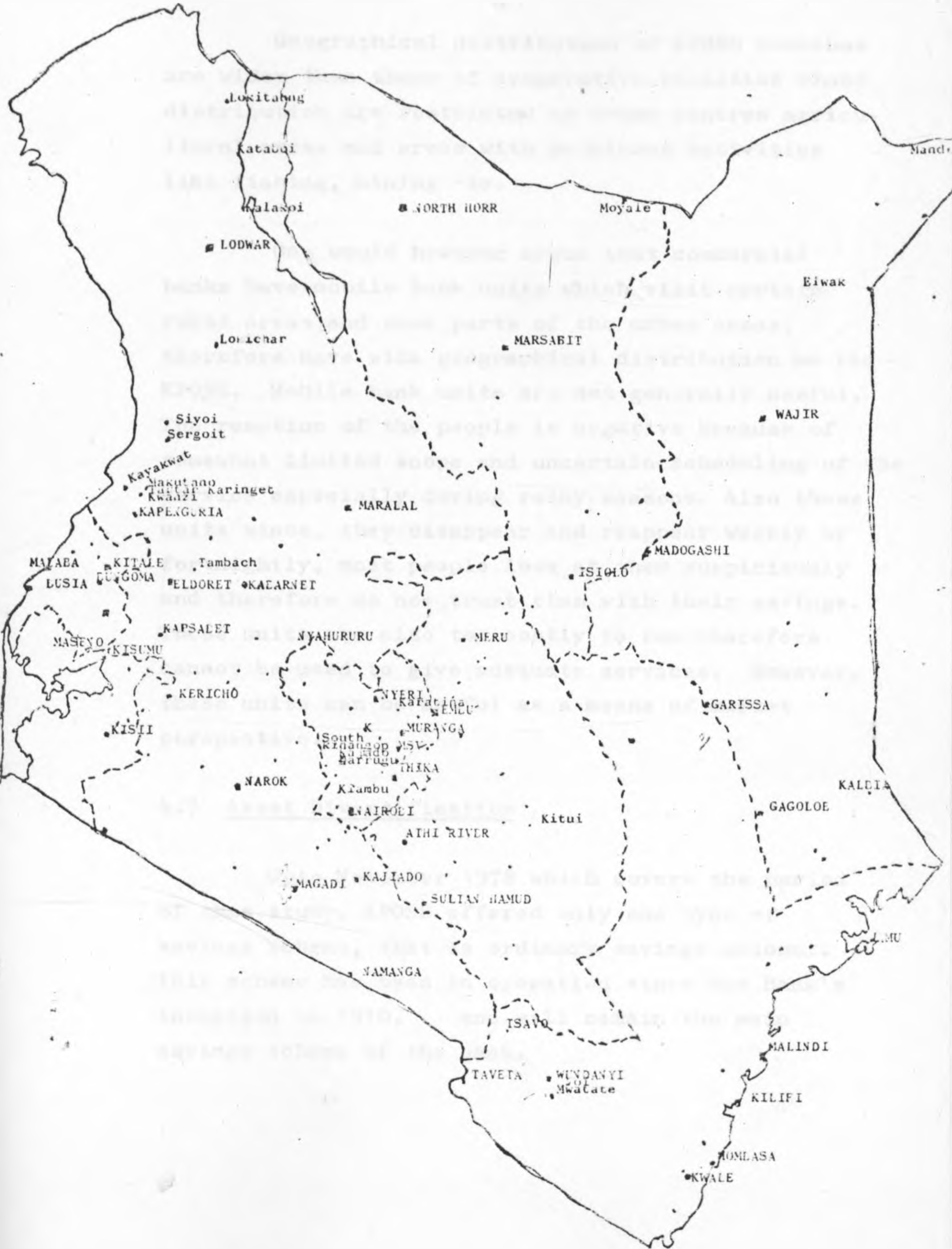
TABLE 4.6e Monthly deposits, withdrawals net deposits by District Officers

Year		JAN.	FEB.	MARCH	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.
73	D	I75867	I57872	232473	2098I4	2I4728	I433I7	I37958	I99643	I4847I	I42435	I80537	82380
	W	I02I97	76763	90I94	9270I	98022	76575	9I499	I0293I	7800I	82467	9870I	50570
	N	736070	82I09	I42279	II7II3	II66706	II6742	464599	I967I2	70470	59968	8I893	32320
	D	I07556	I20584	I42505	II0893	I69447	I33038	I07275	I3I583	I3649I	I63666	I29	I07I24
	W	64766	64692	4620I	69354	59672	56409	68322	6I965	59842	65879	6I37I	7373I
	N	42790	55892	96298	4I539	I09775	76629	38963	696I9	76649	97787	97763	33393
	D	I44269	93446	I60437	I83578	I6904I	I0II54	I55437	I35539	I08020	2I5547	I4II99	I87698
	W	73703	52250	78459	74429	7I830	58096	99I28	65900	4I362	I0I469	5798I	85229
	N	70565	4II96	8I979	I09I49	972II	43058	56309	69639	60658	II4098	83238	I02469
	D	94735	II8853	I36573	I68I7I	I95I40	I83660	I80897	I76067	II2582	II99I9	97249	I33567
	W	54572	66272	68966	72047	82774	79304	80I77	I22586	6I247	48085	44530	82729
	N	40I63	5258I	67607	96I24	II2366	I04356	I00720	5348I	5I335	7I834	527I9	2I6295
	D	II3785	III684	I46336	I23790	I36803	I733I5	I49843	II8526	20I089	I5260I	I9I373	I66I32
	W	64I52	46573	64I06	67I50	69548	73280	73437	53952	75798	68906	69720	98979

Source: KPOSB unpublished data

D - Deposits
W - Withdrawals
N - Net Deposits D - W

Figure 4.3. - Geographical Distribution of KPOs



Geographical distribution of KPOSB branches are wider than those of cooperative societies whose distribution are restricted to urban centres agricultural areas and areas with prominent activities like fishing, mining etc.

One would however argue that commercial banks have mobile bank units which visit certain rural areas and some parts of the urban areas, therefore have wide geographical distribution as the KPOSB. Mobile bank units are not generally useful. The reaction of the people is negative because of somewhat limited scope and uncertain scheduling of the service especially during rainy seasons. Also these units since, they disappear and reappear weekly or fortnightly, most people look at them suspiciously and therefore do not trust them with their savings. These units are also too costly to run therefore cannot be used to give adequate services. However, these units can be useful as a means of market perspective.

4.7 Asset Diversification

Upto November 1978 which covers the period of this study, KPOSB offered only one type of savings scheme, that is ordinary savings account. This scheme has been in operation since the Bank's inception in 1910, and will remain the main savings scheme of the bank.

In November, 1978 the bank introduced premium bonds. The scheme although apparently similar to ordinary sweepstake schemes, is quite different in that the bondholder does not loose his stake money and should he not win a prize, he can still encash his premium bond at par value. Monthly prize draws are carried out in public and all eligible bonds have equal chances of winning the top prize or any other prizes. The top prize and other prizes are extremely attractive and in addition the holder does not lose the par value of the bond because the purchase price of the bond is recoverable on demand after participating in at least one draw. The bond holder loses interest he would have been paid in savings account. A bond qualifies to enter the draw after three clear calendar months from the month of purchase. Bonds are sold for Kshs.10 each or multiples of these and are freely negotiable and transferable on a "bearer" basis, that is without the bank keeping any record of holder at any time. Bond denomination of Kshs. 10 bears one number while that of Kshs.20 bears two numbers. These rates are within the reach of low income groups.

No interest is payable on premium bonds but a prize fund has been created from revenue accruing from investment of proceeds of sale of bonds. This is still attractive because risk takers will be attracted to buy these premium bonds. Won prizes like interest on savings deposits are excempt from taxation.

The scheme was introduced for three basic reasons; to encourage people to save in small units of Kshs.10 and also to curb luxury spending. Secondly, to help the habitual gambler from ruining himself in gambling or horses etc. which the bank considers to be a social service worth providing. Thirdly, to facilitate short-term-saving by the people and the application of funds for national development. Restricting the bonds to enter a draw after three months boosts this last point.

It is however too early to assess the future of this scheme. Indications are that it will gain popularity. The premium bond to the Government which certifies that the bearer has but the face value of the bond to the Government through the bank. The bond is guaranteed by the Government.

The premium bond is unique to KPOSB and this will make it more effective as a savings media. Other financial institutions do not have premium bonds.

Other Schemes the Bank proposes to introduce are save-as-you-earn or contractual savings and $7\frac{1}{2}$ percent 5-year Kenya Savings bond. Save-as-you-earn is a scheme aimed at encouraging planned and consistent savings on a check-off shceme. The scheme will be open to regular wage earners and the bank hopes that this scheme will generate tremendous interest amongst salaried people as quite, obviously, a small monthly deduction from salary will grow into a substantial savings at the end of the contractual period, 3years with interest on savings. It is the intention of the

bank to ensure that savers under this scheme do not overcommit themselves and for this reason, contracted monthly deductions will not exceed 10 percent of net pay. After 3 years the contract can be renewed.

7½ percent 5 - year Kenya Savings Bond scheme is aimed at providing savings education to Kenyans. One way of doing this is to get ordinary citizens to understand basic concepts of investment. Investment is the final goal of a saver and everyone saves with ultimate objective of increasing his savings. It is therefore the intention of KPOSB to provide savings education to Kenyans by suitable facilities for small savers to invest in medium term government savings bonds. The minimum value of these bonds will be Kshs.200. The bank being a government institution and with its social objectives is able to take up this responsibility of educating the "wananchi" in this respect. This is what private institutions are not able to do.

The third scheme is the fixed deposit of Kshs.1000 for a minimum period of 3 months and maximum of 24 months. The bank will liase with other financial institutions for these bonds to be used as security for loans and overdrafts.

These schemes to be introduced will make the bank more attractive and competitive with other financial institutions because it will offer depositors various services. However, for the period under consideration, the bank only offers savings account facilities. This limits the extent to which the bank can mobilise savings. To make the matters worse the bank as already noted does not give loans to its customers.

Compared to commercial banks which offer demand deposits, savings and time deposits plus loan facilities to its customers KPOSB services between 1960 and 1978 is very limited. This asset-diversification by Commercial Banks makes them more attractive than KPOSB and in areas where they operate. Similarly, other non-bank private financial institutions also offers time and savings deposits and as has been noted also gives credit. This makes them more attractive in urban areas where they are restricted to than KPOSB in these same urban areas.

On the other hand, KPOSB has also an advantage over other financial institutions in the sense that the bank has maintained very easy and lenient deposit and withdrawal terms. The bank allows deposits and withdrawals to be made in any branch of KPOSB within Kenya. It is also possible for customers to withdraw upto KShs.800 on demand at any branch of the bank once a week and any amount exceeding KShs.800 at the banks headquarters in Nairobi. In addition, a depositor is allowed to withdraw by telegraphic means upto KShs.200/- once a week. This kind of arrangement is not possible with any other financial institution where deposit and withdrawal must be made at the branch where a customer opened the account. Prior arrangements and only on special cases is this allowed with commercial banks. This early deposit and withdrawal arrangement has made the bank popular despite the limited services it offers. May be it is for the same reason the students prefer the KPOSB than any other financial institution.

Compared to cooperative savings societies, whereby unless it is a paying week a number of withdrawals limit is only Kshs.200 per day subject to Kshs.2000 per month while savings and credit cooperative societies withdrawal procedures which is cumbersome and takes a lot of time.

The introduction of photograph identification on passbooks is only done by Housing Finance Company of Kenya and KPOSB among the financial institutions. This photograph identification and pasting deposit receipts into depositors passbooks facilitate accurate identification, prompt and accurate verification of passbook balances with the result that deposits are now more secure and the service is now more efficiently provided. This creates a sense of security and confidence to the customers and therefore an incentive.

On the other hand, commercial banks and other non-bank financial institutions have another advantage over the KPOSB, that is receipt of a regular wage or salary income which can go to either savings or current account. This encourages the act of saving. In fact a lot of people when they get cash in their hands find it difficult and cumbersome to deposit that money into financial institutions. Even cooperative societies have this system for example for cooperative savings society payment are made through growers accounts while savings and credit cooperative societies get members shares, deducted from their salaries and deposited directly to their accounts. This therefore limits the extent to which the KPOSB can mobilise resources.

4.8. Monthly behaviour of Deposits and Withdrawals

Table 4.8. and figure 4.6. clearly indicates that there is seasonal fluctuations in both withdrawals and deposits. For all the years, heavy withdrawals occur in December which indicate that depositors withdraw to spend at Christmas and the end of the year. While at the same time there are school fees in January. As a result in almost all years, net deposits in December are negative. Other notable depressions are in April, May and August and September. April and May, August and September coincides with payment of school fees for second and third terms.

On the other hand, peak deposits are found in March, June and October, these are usually relatively quiet months without much activity. These months also coincide with harvesting seasons for various parts of the country. For example in some parts of Central Province and the whole of eastern Province harvest is in March which means that farmers are relatively better off than before and have surplus resources.

This therefore indicates that KPOSB clearly assists in target savings. The act of capturing some of harvest cash and quiet months' surplus resources is an act of positive savings mobilisation. Without the bank, other things being equal, may be this money would have been savings consumed other than saved.

However, despite these marked fluctuations in some periods of the year, net deposits are increasing. This is clearly shown on both table 4.8 and figure 4.6.

Table 4.7b indicates that in general December has disguised higher total deposits. This would contradict the above argument that there is much activity in December, therefore negative net deposits. However this is not a contradiction. December shows high level total deposits because it is a hidden peak saving through annual interests which are credited to depositors accounts. This increases the level of savings. These interest accruements are not reflected in net deposits and actual deposits shown on table 4.7 a.

4.9. Employment of Funds or asset acquisition

As shown on Chart 4.3 the bank mainly uses resources it mobilises to buy government bonds. This is a regulation set to them by the Government This means that the bank does not directly put back financial resources it has mobilised to the people whom it gets these resources from.

Commercial banks, non-bank private financial institutions and cooperative societies give loans to their customers. This is an incentive to savings mobilisation. Quite a number of people deposit their money with certain institutions because they at sometime can get a loan for various purposes from these institutions. This reason has made cooperative societies more popular than KPOSB and commercial banks because it gives loans at relatively easier terms. On the other hand commercial banks is sometimes preferred to KPOSB because it gives loans even though its terms a bit strict.

TABLE 4.7: PROPORTION ORIGINAL DEPOSITS TO TOTAL MONTHS DEPOSITS WITHDRAWALS TOTAL MONTHLY WITHDRAWALS AND DIFFERENCE BETWEEN DEPOSIT PROPORTION

Table 4.7 a) Proportion of deposit and withdrawals from other Urban areas except Nairobi

Year		J	F	M	A	M	J	J	A	S	O	N	D
1973	D	89.09	95.62	91.68	87.06	85.59	90.01	85.57	85.29	90.65	83.72	78.71	88.23
	W	71.37	70.61	72.65	72.81	67.63	68,70	69.08	68.55	70.90	70.71	71.12	70.08
	N	11.72	15.02	19.03	14.26	14.92	21.31	16.49	16.74	19.75	13.03	7.59	12.15
1974	D	86.37	88.40	91.39	75.50	76.50	89.10	91.61	90.36	75.84	92.07	91.37	86.69
		67.22	7139	72.04	68.41	69.52	70.44	67.27	66.89	73.32	73.34	74.17	77.64
		19.17	17.01	19.35	7.09	7.98	19.66	24.35	23.47	2.52	18.73	17.20	9.05
1975		84.27	88.69	90.63	78.15	89.04	91.69	90.14	84.63	91.02	89.61	91.38	93.70
		71.53	71.43	76.55	78.08	73.25	79.19	79.21	80.67	78.85	76.92	71.42	82.17
		13.74	17.46	14.08	0.07	15.79	12.50	10.93	3.96	12.17	12.69	19.96	11.53
1976		89.99	88.10	96.58	91.76	92.26	89.90	92.47	91.63	91.02	93.16	93.07	94.35
		80.29	72.15	79.22	72.15	76.36	17.61	78.15	76.63	77.88	79.42	77.65	80.73
		9.70	15.95	17.36	19.51	15.90	12.29	14.32	15.00	13.14	13.74	16.02	13.52
1977		92.80	95.98	94.35	93.13	93.14	91.85	93.55	93 63	92.43	93.29	93.12	92.54
		77.83	78.35	87.74	82.11	79.39	78.63	79.30	78.55	78.30	79.25	79.33	79.32
		14.97	7.63	16.61	11.02	13.75	13.22	12.25	15.08	14.13	16.04	13.19	13.72
1978		92.66	91.37	93.16	89.07	92.82	92.94	92.06	89.95	90.44	91.31	91.44	89.50
		80.20	76.23	79.79	77.07	77.30	78.62	74.46	79.34	79.09	78.93	77.55	80.50
		12.46	15.14	13.82	12.00	15.52	14.32	17.60	9.61	11.33	12.38	13.89	7.50

Table 4.7C Proportion of deposits and withdrawals from Postal Agents

Year	J	F	M	A	M	J	J	A	S	O	N	D
1973	3.47	3.24	3.15	3.58	4.15	3.60	3.14	3.75	3.50	3.50	3.20	3.55
	2.00	2.01	2.25	2.15	2.00	2.21	1.90	1.84	2.03	2.10	1.49	2.15
	1.47	1.23	90	1.43	2.13	1.45	1.24	1.91	1.56	1.40	1.71	1.43
1974	3.40	3.35	3.61	3.15	3.60	3.40	3.75	3.31	3.30	3.30	3.24	2.02
	1.92	2.13	2.18	1.07	2.12	2.20	1.50	2.00	2.06	2.19	2.01	1.27
	1.48	1.22	1.43	1.18	1.48	1.20	1.05	0.41	1.36	1.27	1.23	0.75
1975	3.14	2.95	3.14	2.55	2.57	2.38	2.39	2.02	2.47	2.34	2.47	2.40
	2.38	1.87	1.88	1.93	1.53	1.72	1.50	1.60	1.82	1.07	1.00	1.47
	1.03	1.08	1.22	1.62	1.04	0.66	0.89	0.32	0.65	0.07	0.87	0.99
	2.02	2.42	2.94	2.26	1.82	2.39	2.33	2.84	2.55	2.41	2.01	2.00
1976	1.52	1.31	1.64	1.26	1.25	1.57	1.46	1.67	1.63	1.72	1.57	1.23
	0.50	1.11	1.30	1.00	0.57	0.85	0.77	1.17	0.92	0.07	0.74	1.43
	2.25	2.48	1.88	2.16	2.59	2.23	2.47	2.39	2.44	2.14	2.13	2.09
1977	2.50	1.49	[illegible]	1.15	[illegible]	1.27	1.19	1.20	1.19	1.30	1.21	1.22
	1.02	0.99	0.84	1.01	1.42	1.01	1.25	1.19	1.25	0.54	0.92	0.57
1978	1.94	1.41	1.52	2.00	1.87	1.87	1.90	1.63	1.72	1.62	1.43	1.59
	1.07	0.89	0.73	1.17	1.04	1.22	1.03	0.95	1.14	1.00	0.71	0.93
	0.84	0.52	0.79	0.83	0.83	0.65	0.87	0.63	0.58	0.62	0.72	0.96

Table 4.7 b) Proportion of deposits and withdrawals and net proportion of Nairobi

	J	F	M	A	M	J	J	A	S	O	N	D
1973	4.15	8.47	1.93	6.22	1.67	3.08	8.94	7.61	3.16	10.5	16.13	6.74
	16.13	15.64	17.76	17.20	1.44	9.66	20.28	17.20	17.43	20.42	17.40	18.47
	11.98	7.17	15.83	10.98	0.23	6.58	11.34	9.59	14.32	9.92	1.27	11.73
1974	6.42	6.30	6.08	3.22	18.00	5.27	3.36	3.89	91.72	3.59	3.54	6.59
	20.27	20.67	19.55	15.32	18.29	19.35	14.82	15.20	11.50	11.74	18.71	15.95
	11.65	14.37	13.47	12.60	- 0.3	14.08	11.46	11.31	6.78	5.1 5	15.17	9.56
1975	10.45	6.52	4.08	17.10	6.05	4.51	5.35	11.76	5.14	7.45	4.59	2.78
	15.59	19.74	14.31	14.25	15.00	12.76	16.40	16.70	15.27	16.32	12.12	13.50
	6.41	12.95	10.23	2.62	8.95	8.25	11.05	4.94	10.13	8,87	7.53	10.72
1976	6.90	6.72	2.79	3.99	3.50	5.70	3.21	3.59	5.17	4.21	2.81	1.68
	12.32	13.15	13.07	13.65	12.95	1.67	14.95	1.64	15.50	14.49	15.88	15.59
	5.42	6.43	10.26	9.66	9.15	4.03	11.[illegible]	1.95	10.34	10.28	13.07	13.91
1977	3.00	3.19	2.47	2.50	3.05	4.47	2.74	3.04	3.46	3.43	3.49	4.16
	15.42	15.06	16.63	13.57	15.58	15.52	16.24	16.50	18.81	15.83	11.11	15.28
	11.52	12.49	14.16	11.37	12.55	[illegible]	13.50	13.46	15.35	12.40	13.62	11.08
1978	4.49	5.97	4.27	7.03	4.00	4.50	5.08	8.64	7.14	6.37	6.52	8.23
	17.70	19.19	10.90	16.75	15.93	17.74	17.81	18.23	19.23	19.31	20.06	18.32
	12.70	13.[illegible]	6.03	9.[illegible]	11.27	13.24	12.72	[illegible].59	9.59	[illegible]		10.09

4.7d) Proportion of deposits and withdrawals from District Officers

	J	F	M	A	M	J	J	A	S	O	N	D		
1973	3.29	2.61	3.24	[illegible] 15	3.59	3.22	2.05	3.25	2.35	2.59	2.90	1.45		
	1.75	1.67	2.01	1.79	2.00	1.54	1.78	1.73	1.55	1.57	2.00	0.99		
	1.54	0.95	1.23	1.36	1.59	1.68	0.27	1.62	0.80	1.02	0.96	0.40		
1974	1.81	1.92	2.09	1.78	2.27	2.03	1.08	1.38	1.01	2.94	1.83	1.30		
	1.06	1.38	0.92	1.15	0.96	1 05	1.05	0.90	1.04	1.19	1.05	1.72		
	0.75	0.54	1.15	0.62	1.31	0.89	0.03	0.48	0.97	1.75	0.78	0.58		
1975	1.84	1.34	2.17	2.17	2.33	1.42	3.12	1.61	1.37	2.60	1.57	2.27		
	0.88	1.29	0.96	0.95	0.93	1.45	0.96	0.67	1.45	0.81	0.98			
	0.79	0.46	0.88	1.21	1.38	0.49	1.67	0.65	0.76	1.15	0.76	1.19		
1976	1.09	1.36	1.51	1.98	2.12	1.98	1.97	1.94	1.26	1.22	0.91	1.31		
[illegible]	0.06	0.90	0.91	0.83	1.05	1.05	0.95	1.30	0.12	0.00	0.50	0.81		
	0.43	0.56	0.60	1.15	1.07	0.93	0.99	0.64	1.14	0.62	0.41	0.51		
1977	1.18	1.10	1.30	1.31	1.23	1.50	1.25	0.98	1.02	1.14	1.20	1.21		
	0.67	0.62	0.72	0.[illegible]5	0.79	0.81	0.78	0.49	0.73	0.49	0.75	0.70	0.72	0.77
	0.51	0.38	0.58	0.56	0.44	0.69	0.47	0.49	0.84	0.44	0.54	0.44		
1978	0.45	1.25	0.59	0.01	0.63	0.89	0.98	0.78	0.07	0.70	0.61	0.38		
	0.21	0.60	0.21	0.33	0.34	0.50	0.59	0.52	0.53	0.20	0.32	0.24		
	0.24	0.65	0.38	0.02	0.29	0.31	0.57	0.20	0.23	0.44	0.29	0.14		

J - January. A - August. N - November.
F - February. M - March. S - September. D - December
M - March. J - June. O - October. J - July

crossed warrants are left out as does not affect any saving it is non only withdrawals of deceased non

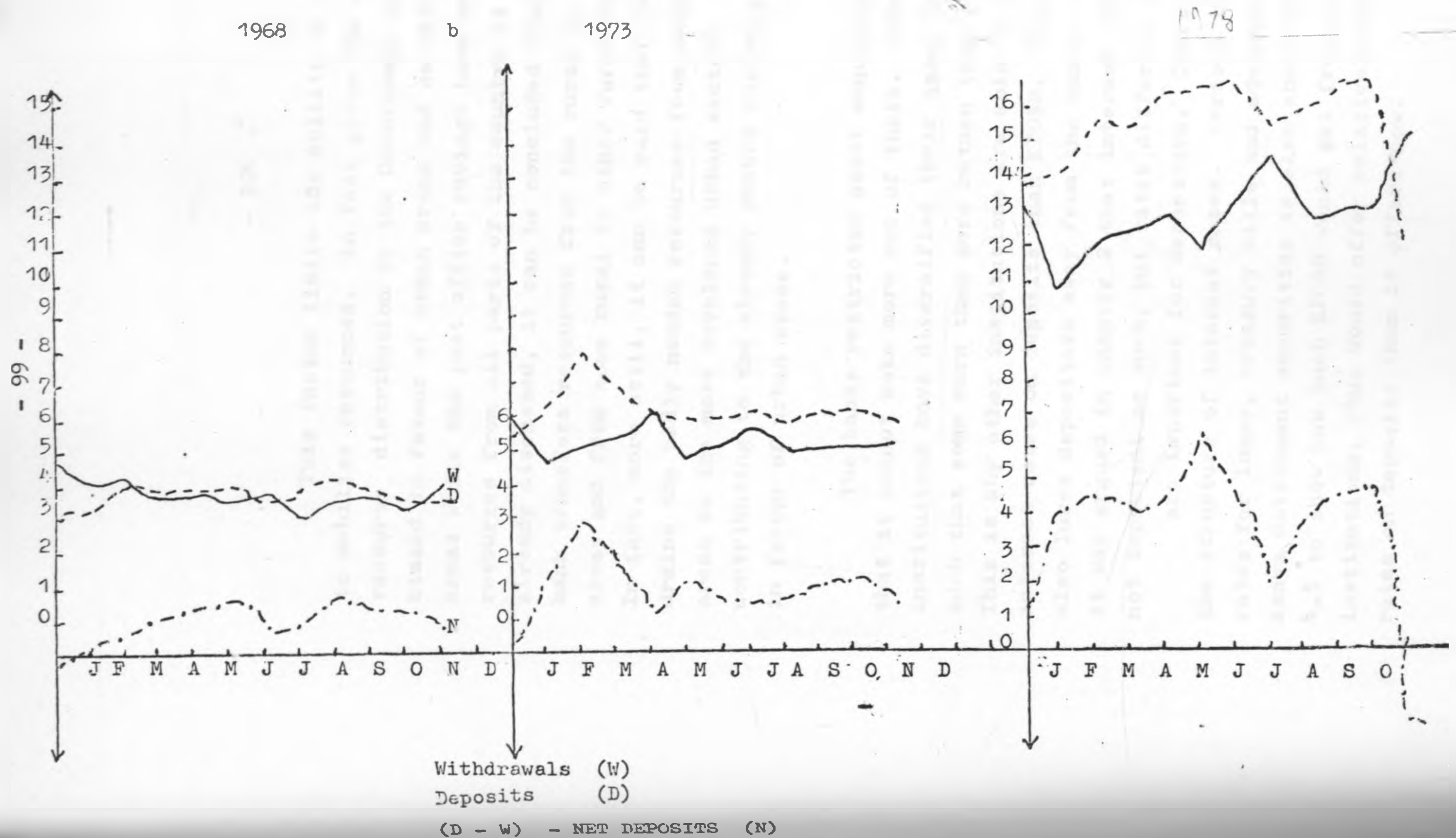
TABLE 4.8a ACTUAL MONTHLY DEPOSITS, WITHDRAWALS AND NET DEPOSITS IN KSHS MILLION

Year	JANUARY			FEBRUARY			MARCH			APRIL			MAY			JUNE			JULY			AUGUST			SEPTEMBER			OCTOBER			NOVEMBER			DECEMBER		
	W	D	NS	W	D	NS	W	D	NS	W	D	NS	W	D	NS	W	D	NS	W	D	NS	W	D	NS	W	D	NS	W	D	NS	W	D	NS	W	D	NS
1968	4.6	3.2	1.4	4.0	3.2	0.8	4.2	4.0	0.2	3.6	3.7	0.1	3.7	4.0	0.3	3.5	3.9	0.5	3.8	3.6	0.2	4.0	3.8	0.2	3.5	4.2	0.7	3.0	3.7	0.1	3.3	3.6	0.3	3.9	3.4	0.5
1969	4.2	3.2	1.6	3.2	3.5	0.3	3.4	3.7	0.3	3.7	4.0	0.3	3.8	3.7	0.1	3.2	3.7	0.5	3.6	4.0	0.4	3.5	3.5	0.0	3.6	4.3	0.7	3.5	3.8	0.3	3.4	3.8	0.4	4.4	4.2	0.2
1970	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3.8	4.1	0.3	3.6	4.0	0.4	3.9	4.3	0.4	4.1	4.8	0.7	4.4	4.3	0.1	4.1	4.3	0.2	3.9	4.5	0.6	3.7	4.7	1.0	4.5	4.3	0.5
1971	4.3	3.8	0.5	3.3	4.1	0.8	4.3	5.3	1.0	4.4	4.1	0.3	4.4	[illegible]	[illegible]	4.5	4.3	[illegible]	4.3	4.7	0.4	4.5	4.3	0.2	4.6	4.9	0.3	4.3	5.5	1.2	4.4	5.2	0.8	5.4	4.9	0.5
1972	4.7	4.7	0.0	4.9	4.8	0.1	4.3	5.8	1.5	4.3	5.1	0.8	4.7	5.2	0.5	4.3	5.6	1.3	4.7	6.6	1.9	5.5	5.3	0.2	5.0	5.7	0.7	4.9	6.1	1.2	5.1	6.0	[illegible]	5.7	5.7	0.0
1973	6.1	5.3	0.8	4.6	6.0	1.4	5.0	7.8	2.8	5.2	6.8	1.6	5.9	6.0	0.1	4.7	5.9	1.2	5.1	5.8	0.7	5.6	6.0	0.4	5.0	5.7	0.7	5.0	6.1	1.1	5.0	6.12	1.1	5.1	5.8	0.7
1974	6.1	6.0	0.1	4.7	6.3	1.6	5.0	6.8	1.8	6.2	6.0	0.2	6.0	6.0	0.0	5.4	8.0	2.6	6.6	6.7	0.1	7.0	7.1	4.1	1.6	1.8	5.7	6.9	1.2	5.9	7.1	1.2	6.8	8.3	1.5	
1975	7.1	7.9	0.8	8.0	7.0	1.0	6.1	7.4	1.3	[illegible]	8.4	0.6	7.6	7.2	0.4	6.3	7.2	0.9	6.8	7.3	0.5	6.9	8.4	1.5	7.6	0.6	7.2	8.3	1.1	7.2	9.0	1.8	8.6	8.2	0.4	
1976	8.4	8.9	0.5	6.1	8.4	2.3	8.0	9.3	1.3	8.9	8.7	0.2	7.8	9.2	1.4	7.9	9.6	1.7	8.3	3.9	0.6	9.1	9.4	0.3	9.1	9.4	0.3	8.0	9.9	1.9	8.0	10.6	2.6	10.1	10.2	0.1
1977	10.1	9.9	0.2	7.5	10.2	2.7	8.9	11.5	2.6	9.2	10.6	1.8	8.8	11.3	2.5	8.4	12.2	3.8	9.3	12.0	2.7	10.5	12.7	2.2	10.1	12.4	1.3	9.4	12.6	3.2	9.6	15.2	5.6	-		
1978	12.2	12.6	0.4	9.7	12.9	3.2	11.0	14.6	3.6	11.2	14.3	3.1	11.8	15.4	3.6	10.8	16.2	5.4	12.2	15.6	3.4	13.5	14.5	1.9	11.8	14.8	3.0	11.9	15.5	3.6	12.0	15.8				

TABLE 4.8b TOTAL MONTHLY DEPOSITS IN KSHS MILLION

Year	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
1968	99	98	98	98	98.3	98.3	98.3	98.3	99.9	99.1	99.4	100.6
1969	100	101	101	101	101.2	101.7	102.0	102.0	102.7	103.0	103.4	103.2
1970	N/A	N/A	N/A	103.9	104.4	105.5	105.5	105.5	105.6	106.2	107.1	106.6
1971	106	107	108.8	107.3	107.4	107.2	107.7	107.6	107.9	108.5	109.3	108.6
1972	109	108	109.8	110.6	111.2	112.5	114.4	114.2	114.9	116.1	116.9	116.9
1973	116.2	117.6	120.[illegible]	121.2	122.0	123.2	123.9	124.3	125.0	176.1	127.1	127.7
1974	127.7	129.2	131.0	130.8	130.6	133.4	133.5	133.6	135.4	136.7	137.9	139.4
1975	140.2	141.2	142.6	148.2	142.8	143.7	141.2	145.8	146.3	147.5	149.3	161.9
1976	149.4	151.4	152.7	152.5	153.9	155.7	155.3	156.6	156.8	158.7	161.3	161.6
1977	161.2	163.9	166.2	167.8	170.4	174.3	177.0	179.1	181.5	184.7	190.2	

FIGURE 4.6 SHOWING MONTHLY DEPOSITS AND WITHDRAWALS FOR 1978, 1973 AND 1968 AND NET DEPOSITS



This factor limits the ability of the KPOSB to mobilise resources. In fact given the nature of resource distribution by the Government which is biased in favour of urban areas and certain rural areas while the post office savings bank mobilises resources from all parts of the country as is already discussed, it can be concluded that the bank transfers resources from the rural to urban areas and from some rural to other rural areas. In fact, more still, it can be said that the bank drains the badly needed resources from underdeveloped areas to the more developed urban sectors, thus contributing to the already skewed regional development in favour of urban areas.

The banks restricted asset acquisition means that it cannot make more out of these. Other institutions have diversified their asset holdings such that some earn them more return than others. This is why other institutions are able to pay higher interest rates on deposits than KPOSB. This factor also lures depositors away from the bank. Although, it was argued in chapter 2 that interest rates are not important as such, but the rates different institutions are important for depositors. Chart 4.5 shows the structure of interest rates. Various interest rates for loans, treasury bills and advances against Kenya Government securities is also shown on Chart 4.5 to show how much KPOSB would get from other institutions, thus would offer relatively higher rates on deposits than it offers now.

CHART NO. 4.4 EMPLOYMENT OF FUNDS AND ASSET ACQUISITION

NAME OF INSTITUTION	CASH AND BANKS	INVESTMENTS	LOANS BILLS	FIXED ASSETS	OTHER FIN. INST.	PARENT OR SUBSIDIARY COMPANIES
1. Commercial Banks	√	√	√	√	√	√
2. Housing Finance Companies	√	√	√	√	√	√
3. Insurance Companies	√	√	√	√	√	X,√
4. Hire Purchase Companies	√	√	√	√	√	X
5. Co-operative Societies	√	√	X	√	X	X
6. Kenya Post Office Savings Bank	√	X	X	√	X	X

a) Cash on depost joint conslidated fund

b) Other assets

Investments include Treasury bills, central and local Government Securities
Marketable names and debenfules and non-marketable securities

CHART 4.5 STRUCTURE AS INTEREST RATES 1967 - 1978

	THE STRUCTURE OF DEPOSTS INTEREST RATES		THE STRUCTURE OF LOANS INTEREST RATES	
	1967 - 1973	1974 - 1976	1967 - 1973	1974 - 1978
Commercial Banks	[illegible]34.50	5.375 - 5.86	6.- 11	10 and above
Non-bank specified financial Institutions	36.50	5.50 - 7.50	6 - 10	8 - 12
Kenya Post Office Savings Bank Co-operative Societies	2.50	5.00		
Co-operative Societies	-	Dividends no fixed rate		

Central Bank of Kenya -

		1967 - 73	1974-76
1.	Rediscount rate [illegible]7 -		
2.	Advances agains		24.99
3.	Bills and Notes under crop finance scheme	N/A	6.0
4.	Other Bills and Notes		6.5
5.	Advances against Kenya Government Securities		6.5

4.10. Contribution of KPOSB to GDP, total deposits and Gross national savings

In Chapter one it was argued that one way of finding out the effectiveness of financial sector is to find its ratio of financial assets to GDP. Therefore, this will analyse the banks contribution to GDP, total deposits and to gross national savings.

Despite wide geographical distribution, low minimum deposit requirement etc table 4.8 shows very puzzling results. KPOSB deposits as a proportion of GDP is constant at 1 percent from 1964 to 1978. In fact this declined from 2 percent of 1963. According to theory, this indicates that KPOSB is not an effective savings media as far as deposit mobilisation is concerned. Factors other than non-effectiveness can partly explain the above situation. One important explanation is the growth of other financial institutions which compete with KPOSB in deposit mobilisation. After independence commercial banks increased their branches, cooperative societies were established and other non-bank private financial institutions were established and existing ones increased their business. These, plus other services and assets offered by these institutions have the effect of luring away some customers from the Bank.

TABLE 4.9 KPOSB DEPOSITS AS PERCENT OF GROSS DOMESTIC SAVING & GDP

	KPOSB DEPOSITS AS PERCENT OF GDP	KPOSB DEPOSITS AS PERCENT OF TOTAL DEPOSITS	KPOSB DEPOSITS AS PERCENT OF GROSS SUBSISTANCE SECTOR DOMESTIC SAVINGS	GROSS DOMESTIC SAVINGS KSH M
I964	2.II	-	7.98	I278.4
I965	I.9I	-	8.98	IO7I.4
I966	I.8I	I6.IO	6.02	I649.8
I967	I.6I	I4.22	5.79	I733.2
I968	I.50	I2.5I	5.83	I74I.6
I969	I.34	II.45	4.98	2I3I.O
I970	I.4I	8.3I	4.83	2328.O
I97I	I.3I	8.25	4.89	24I5.3
I972	I.22	8.22	4.54	2870.2
I973	I.II	7.OI	4.04	3584.4
I974	O.97	7.OO	5.07	3I42.O
I975	O.82	8.59	6.47	273O.O
I976	O.65	6.2I	3.89	5O46.O
I977	O.55	5.OI	2.67	8824.O
I978	O.5I	4.99	4.39	6348.O

Source: Calculations IBRD Report, I975
and Waruhiu Report I98O

Secondly inflation, especially from 1973 also affected the efforts of people to save especially the low income group who have been more seriously affected by the inflation. These are the majority of depositors with KPOSB.

The coffee boom of 1978 did not seem to have made a significant impact on deposits with KPOSB. May be then when people had more money they found other institutions with more deposit and loan facilities more attractive. Also may be the low income group were not involved in this, the majority of which save with KPOSB.

4.11. Problems of KPOSB and other aspects

Personal savings are widely scattered since the majority of the population live in the rural areas as small scale farmers. The majority of these people are illiterate and know very little about the benefits that can be derived from savings. They do not keep their money in the bank particularly because they do not have easy access to these banks and particularly because some of the would be savers do not trust the banks. Yet these are the people this bank is supposed to serve. This is the problem of skewed development in favour of urban areas and rich agricultural hinterland.

It is for this reason that the KPOSB is trying to educate these people to be saving-oriented by campaign through administrative officers who are in constant touch with the rural people; education, pamphlets which are distributed in public places and use of mass media, telephones, radios and newspapers. In addition, the bank is planning to organize and promote the use of school savings clubs for school children where the habit of saving can be inculcated in the youth.

The bank also uses agricultural shows throughout the country.

The proportion of total cost of what the bank uses on advertisement is about 1 percent for ordinary savings scheme and 10 percent for premium bonds. The bank has also got a public relations officer except that he is single handed.

Poor infrastructure is another big problem facing the bank. This makes it difficult for the bank to carry out proper campaign or business. Infrastructure problem is not limited to physical aspects but also includes language problem. Most of the people found in the rural areas apart from being illiterate do not understand English and Swahili and yet KPOSB pamphlet, passbooks and any publicity documents are in these two languages. This is a very big draw back to savings mobilisation. This kind of problem is not unique to Kenya, other African countries have the same problem.

Importance of supervision must be stressed for all financial institutions. Inadequate supervision can lead to losses and important instance of food which can result in widespread panic amongst savers which will result in a decrease in savings. This happened in Burundi [73] in the early and mid seventies. However, KPOSB has strict supervision and to strengthen it further photographic identification, which has already been mentioned, was introduced. In fact, the system of restricting large withdrawals to headquarters or with the permission of headquarters is another way of checking on fraud. In fact the losses for KPOSB is very little, about ½ percent of total withdrawals.

There is a problem of an undesirable degree of fluctuations in the total volume of savings deposits in branches serving the rural areas. Seasonality of incomes due to dependence on agriculture causes this problem. This means that these branches require relatively large cash reserves than those in urban areas with constant flow of incomes throughout the year in order to meet potential withdrawal requirements.

Dependence on posts and telecommunications limits the banks ability to mobilise savings. Although as is already discussed this dependence has some advantages. The post and telecommunications staff are not trained to do savings bank business. Therefore it is difficult for the bank to extend its services and deal with its development structure. Even institutions where these kind of people can train is not available.

Seconuly, dependence on posts and telecommunications means that the bank cannot have geographical distribution or rate of growth of its branches as it would like. It must grow at the same pace or at a slower pace than the Posts and Telecommunications.

Thirdly, association between the bank and posts and telecommunications would affect the psychology of savers especially considering the fact that registered money, money orders, postal orders, money enclosed in an envelope through the post office sometimes disappears in these posts offices. This reduces savers confidence in KPOSB because they think that their savings might also disappear if deposited with KPOSB.

Inflation which limits surplus incomes to be saved has been an issue in Kenya since 1973. This limits the level of savings and even those who manage to save make quick withdrawals.

Protection from the Government of Kenya is limited. Apart from support by the Central Bank and the Treasury and exception of interest ~~acruements~~ exemption from taxation there is no other support the Bank gets from the Government. In some countries in West Africa governments give a lot of support such as campaigns, forcing everybody or certain sectors to save with the bank or even pursuading them. In fact some of the regulations it sets have negative repercussi to the banks ability to mobilise resources, for example, the controlled low level of interest rates.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

This thesis looks at the role of financial institutions in savings mobilisation in Kenya with particular reference to KPOSB.

Several theories put forward to explain savings mobilisation in developed countries are not suitable for LDCs. However, the theory of financial institutions and savings has been found to be relevant in LDC. This is because the household sector has been found to contribute more to national savings in these countries, and it is only through financial institutions that these savings can be tapped effectively.

Financial institutions in Kenya are divided into three categories, namely commercial banks, non-bank private financial institutions and non-bank public financial institutions. The first two categories are profit maximising institutions which are not relevant for mobilising and allocating savings to the socially most productive sectors of the economy. Non-bank public financial institutions are more relevant to developing countries because of their social objectives. Of the specialised non-bank public financial institutions, only KPOSB is nation-wide. therefore fits well into the rural areas. Therefore this study looks at KPOSB in details.

However, there exists limited data to allow regression analysis in our data. Therefore, most of the statistical analysis of the data is descriptive.

It has been found that actual deposits and total deposits declined in the early and mid sixties, and increased after 1969. Reason for decline in deposits in early and mix sixties were pre-indepence pesimism and decentralization of East African Community. After 1969 except for inflation of 1973 the country enjoyed political stability and in 1977 and 1978 there was the coffee boom which boosted deposits. This shows the importance of political stability.

KPOSB offers a low minimum deposit requirement which provides low income groups with an opportunity to save and allows parents to open accounts for their children. The last factor not only increases savings but teaches young children the concept of saving.

Wide geographical distribution of the bank allows people in the rural areas to save, thus tapping savings which would have consumed and/or not pooked in a large source.

The number of KPOSB branches are limited compared to the potential number of offices. This limitation does not reduce the number of people per savings bank. However, the bank has the largest number of branchs compared to other financial institutions.

During the period under consideration, the bank only had savings deposit account to offer to its customers. This limited its ability to mobilise resources because savers with other desires for asset holding other than savings account will be discouraged to save with KPOSB. In areas where other financial institutions do not exist it means savings from people would be forgone. However, premium bond scheme and the proposed schemes will increase the ability of the bank to mobilise resources and make it competitive with other institutions.

KPOSB does not give credit to its customers but instead purchases government bonds. In this respect, thebank has been accused of transferring badly needed financial resources from less developed rural areas to the more developed urban centres because the latter have been better developed than the former. This transfer of resources distorts investment and contributes to the already skewed regional development. This has a negative affect on the banks ability to mobilise savings. The bank has very limited uses of its funds.

The bank does not allow depositing of salaries direct into the accounts of its depositor. This again is a limited factor to savings mobilisation.

However, the bank has other advantages over other institutions, These are easy withdrawal and deposit facilities and accurate photograph identification which reduces the degree of fraud. These two factors help to promote savings.

The bank caters for monthly or seasonal liquidity requirements of depositors. That is mobilising more funds during the good months and more withdrawals during the busy months. These busy months and quiet months coincides with national activities. Therefore the banks contribute to national development.

The bank contribution to GDP, total deposits and national savings is constant throughout the period under consideration. There are reasons which contribute to this.

It can therefore be concluded that KPOSB through its social objectives has increased the level of savings. Its existence is useful for savings mobilisation because it is not merely duplicating services of other financial institutions. KPOSB serves the socially most productive sectors which are not catered for by other financial institutions. We therefore accept our hypothesis.

Recommendations

Our findings point to the fact that social objectives like minimum deposit requirement, wide geographical distribution and large number of KPOSB are important aspects which made the bank an important institution in savings mobilisation. Therefore, in the light of this, it is recommended that the Bank should keep a low minimum deposit requirement, a wider geographical distribution and increase the number of its offices. It is however felt that since the bank has limited the number of post offices it uses for its business and yet there

are very many which can do saving bank business, it would make the bank more effective if it could increase the number of its branches.

It was also found that the bank has limited types of assets it offers to its customers but it proposes to add to this number. However, apart from the proposed services it is recommended that it would be better if the bank gives credit to its customers. This is important because the low income group and rural areas which the bank serves do not have proper access to credit. Their are not adequately served by other financial institutions which regard those sectors credit worthiness as nil or rery low. Therefore,if the bank wants to give effective support to the socially most productive sectors, it should mobilise savings as well as give credit facilities to them. This will not only help create incentives but also reduce dualism and enable the bank to pay higher rates than what it pays now. An effective financial institution should be that which raises resources and allocates these efficiently. Some savings banks in other countries do give credit and this has made them more effective financial institutions and it makes them compete where possible on equal basis with commercial banks and private non-bank financial institutions. After all the new KPOSB act of 1978 allows it advance credit.

However, for the bank to give credit and serve its customers effectively, it must be independent and avoid relying wholly on Kenya Posts and Telecommunications Corporation (KPTC) staff. These KPTC staff are not properly trained to effectively handle the banks services and to translate the bank's objectives properly. Therefore although dependence on KPTC has some advantages as has been discussed complete reliance on it is not very good. It is therefore recommended that the bank should train its staff and have more of its own branches. Post Offices should be used in very remote areas and even then the bank should have its staff working with postal staff.

In the earlier discussion it was found that the bank only mobilises local savings while there are many Kenyans who are working or studying abroad and can afford to send savings home, which can in future help them to reintegrate when they come home. This will also increase the badly needed foreign exchange.

It is recommended that the bank should intensify its campaign through mass media, radio and televisions. Administrative officers can be very useful in this respect.

It was discussed that there is a big problem of data limitation. It is therefore recommended that it would be a very good idea if the bank widens its data collection base and keep it. This will enable a detailed research on the working of the bank and

help the bank improve its performance and areas of weakness or omissions which can be discovered through research. Data availability will also create an incentive for researchers to study many aspects of the bank.

It has been argued that the Government was said does not give the bank enough support. It would increase the bank ability to increase savings if the Government gives it more support such as campaigning for it, urging public institutions or cooperative societies to use the bank other than Commercial banks; other support the government can give is indirect support through improving levels of income, balancing the urban and rural development, improving, infrastructure, increasing level of literacy, educate people on the importance of savings and maintain economic and political stability.

More research is needed to find out ways and means of making KPOSB more effective than it is now.

FOOTNOTES

1. Most productive sectors are those which employ many people and resources thus contributing more to economic development. Serving these sectors show committment to social objectives.

2. United Nations, Policies and Techniques for Mobilising Personal Savings in Developing Countries with Special Emphasis on African Countries: Report of an interregional Workshop in Algiers, 1-4 February, 1970, New York 1979, P1.

3. This is an argument put forward by U.N. Report (Op.Cit.) and A.P. Thirwall, Inflation, Savings and Growth in Development Economies; MacMillan 1974.

4. Meir, Leading Issues in African Economics. London, 1970 and A.P. Thirwall, (Op. Cit.).

5. U.N. Report, 1979 (Op.Cit.)

6. There could be other countries which have attained more than 15 percent of gross national savings to GNP, but due to non-availability of data, have not been identified.

7. For more details see G.S. Dorrance "Capital Market and Economic Development" IMF Banking Services, Washington (1971) and R.F. Mikesell and and Zinser, "The Nature of Savings Functions in Developing Countries: A Survey of the Theoritical and Empirical Literature", Journal of Economic Literature; (March 4 1973).

8. Mikesell and Zinser, (Op.Cit.).

9. Some of these writers are,
   Timothy King (1971)
   Luis Landau (1969) and
   R.W. Hooley (1967). Their findings are summarised by Mikesell and Zinser, (Op.Cit), PP.1-13.

10. Mikesell and Zinser, (Op.Cit.).

11. U.N. Report, 1979.

FOOTNOTES

12. Mikesell and Zinser (Op.Cit.).

13. This typical Keynesian theory developed by Keynes in early 1930.

14. M. Friedman "The Quantity Theory of Money; A Restatement", Reading in Macroeconomics, Muller Ed. and Mikesell and Zinser (Op.Cit.).

15. H. Chenery and P. Eckstein "Development Alternatives for Latin America," Journal of Political Economy Supplement to July-August 1970, 78 PP 966-1006.

16. Mikesell and Zinser (Op. Cit.)

17. Chenery & Esketein 1970 and many others very well summarised by Mikesell & Zinser (Op.Cit).

18. For details see G.S. Donance (Op.Cit), and Thirlwell (Op.Cit.).

    R. Mackinnon, Money and Capital in Economic Development, Brookings Institution (1973).

19. Maizels A. Exports and Economic growth to developing countries. English, Harvard University Press 1968

20. Many writers have complained of this. See E. Smith, Macroeconomic Theory. Donnance, UN Report 1978, and Mikesell and Zinser (Op.Cit.)

21. Real interest rates take into account inflation and it should be higher than the rate of inflation.

22. R.I. Mackinnon, (Op.Cit). and IBRD Report, Kenya into the Second Decade, Baltimore, 1975.

23. For details see R.I. Mackinnon (Op.Cit.) J.D. Heyer "Smallholder Credit in Kenya's Agriculture", IDS Working Paper No.25, University of Nairobi, 1973, and J.D. Von Pischke," A Description of the Cooperative Production Credit Scheme IDS Working Paper No.80, 1972.

FOOTNOTES

24. A dual type of economy is that where there are two sectors, one very developed with access to financial resources and have high productivity and the other less developed with very limited or no access to credit and initiate very little technical innovation. The Sectors within one economy face different factors of production.

25. This is what R.I. Mackinnon (Op. Cit) refers to as negative intervention syndrome.

26. This affects financial intermediation because imposed low interest rates does not allow financial institutions to lower their costs and pay handsome interest rates.

27. The Please Effect was developed by Mr. Please and it states that increase in taxation decreases national savings because increase in taxation increases government revenue and government consumption which eventually decreases saving.

28. This from the Study of Bhatia quoted by Mikesell and Zinser

29. S.K. Singh "The Determinants of Aggregate Savings," Domestic Finance Division, International Bank for Reconstruction and Development (Mineo). April, 1971.

30. Mickesell and Zinser (Op.Cit.) P16.

31. For details see Thirlwell, Mackinnon and Taylor (Op. Lit.).

32. There are three government systems namely; Socialism, Communism and Capitalism. The first two types, economies are centrally controlled and the Government does everything. Market oriented economies, Governments creates policies which control the private sector which is profit maximising and own industries mixed economies have both systems.

33. J.G. Qurley and E.S. Shaw, "Financial Aspects of Economic Development," The American Economic Review, Vol.XLV No.42 (September, 1955) PP 515-538. Economists who have expounded on

FOOTNOTES

this theory are Thirlwell (Op.Cit.) Furness (Op.Cit.) Mackinnon (Op.Cit.) and A.H. Patrick "Financial Development and Economic Growth in Underdeveloped Countries," Economic Development and Cultural Change, Vol. 1 XIV, January 1966, PP (1-19).

34. The effect of interest rates on savings is already discussed.

35. According to Mackinnon Self-finance is a characteristic of underdevelopment of which is a result of slow innovation which can lead to a poverty trap.

36. Indirect sources means from all sources, low, medium and high income groups.

37. J. Mauri, Savings Mobilisation in Developing Countries New York 1975.

38. Dorrance (Op. Cit.) P.6.

39. The reasons are basically keynes. Asset holding for hoarding satisfaction is regarded an idle saving because it is not used for development purposes.

40. Thirlwell, Dorrance (Op.Cit.) and R.J. Girdle, "Financial structure and Development with Special Emphasis on the less developed countries" Uchumi, Vol.2 No.2 (1964).

41. For details see V.Dalai, Resources Mobilisation through Banking System" L.K. Jha "Banking and Development" both in The Journal of India - the Institute of Bankers. Vol, 41, No.1 (January-March 1970) and I.V. Gershenberg, Commercial Banking in Uganda - Prescription for Economic Development, Ph.D. Thesis, Rutgers University, (1973).

42. J.D. Von Pischke, "A penny saved - Kenya's Cooperative Savings Scheme and some Related aspects of Rural Finance," IDS Workshop Paper No.204, (University of Nairobi - 1973).

43. Low level minimum deposit requirement is that which will allow a small saver to save.

FOOTNOTES

Thus it should be a low proportion of minimum basic wage.

44. L.K. Jha , (Op.Cit.)

45. Valuable saving is that which gets a positive response from depositors and the same increases the ability of financial institution to mobilise savings.

46. This was confirmed by family budget survey carried out in early 1970s in some Asian countries - See U.N. Report 1978 (Op.Cit.).

47. R. Goldsmith, Financial Structure and Development, (Yale University) Press.

48. Girdle (Op. Cit.) P.33.

49. H. Patrick (Op. Cit.).

50. K. Burke - Dillon, "Financial Institutions in Kenya 1964-1971, A Preliminary Analysis," IDS.

Working Paper No. 61 (University of Nairobi (1972); Central Bank of Kenya, Money and Banking; Nairobi (1972); J. Loxley, "Financial Intermediation and their Role in East Africa", University of East Africa Serial Science Conference, December, 1966 Ec 1-3 and various Central Bank of Kenya Publications.

51. -See McWilliam M.D. "Banking in Kenya, 1950-1960," East African Economic Journal, X, 1, June (1962) and W.T. Newlyn and D.C. Rowan Money and Banking in British Colonial Africa (Oxford, Maredon Press 1964.

52. -See Mackinnon, Thirwall and Mauri-(Op.Cit).

53. -Central Bank of Kenya Publications.

54. -This only serves cooperative societies not private individuals or any other type of business.

FOOTNOTES

55. - First National Bank of Chicago and Citi Bank are exclusively for high income group, industries with large foreign exchange component and big firms.

56. - Budget speech by Kenya's Minister for Finance, June 24, 1979 set maximum on proportion to be lent to other sectors to include money put through subsidiaries.

57. - For detailed analysis of historical development of these institutions, see Loxley (Op.Cit.) and Burke - Dillon (Op. Cit.).

58. - All subsidiaries are included here because all of them, whether they stem from private or public institutions operate with standards of private institutions.

59. - Trade unions do this because they are in a position to bargain for better terms for the people they represent. This is one way of making people's lives better which is what trade unions do.

60. - Social objectives are mobilising and extending credit to the socially most productive sectors of the economy. These sectors because of their nature are not catered for by commercial banks and private non-bank financial institutions.

61. - The gap referred to here the low income group and rural areas which do not get financial services while other sectors do get services from private financial institutions.

62. - It must be noted here that commercial banks as a rule imposed by the Government are required to lend 17 percent of their total assets to agricultural sector. However, the banks might not find channels to directly lend to these farmers, it therefore lends it

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FOOTNOTES

through Cereals and Sugar Finance Corporation (CSFC) which guarantees this loan. CSFC then passes this money to the Agricultural sector, through various bodies which lend directly to farmers.

63. - IDB and DFCK have different shareholders. This is why they do the same thing but are both different institutions.

64. - For details see J.D. Von Pischke, 1972 and 1975 (Op.Cit.), and Cooperative Societies Annual Reports for 1976, 1977 and 1978.

65. - For details see International Savings Bank Institute, Management Training Workshop for African Savings Bank, October 22-26, 1979 in Nairobi, Geneva (1979).

66. - Currency Board controlled the banking system but it lacked the authority of the Central Bank.

67. - This information is obtained from KPOSB.

68. - J.D. Von Pischke, 1975, (Op.Cit.).P.23.

69. - There is no statistics on costs of providing services to the low income group and small scale sectors.

70. - J.D. Von Pischke, 1975 (Op.Cit) and J. Heyer (Op.Cit).

71. - Better alternatives are commercial banks and private financial institutions which pay higher interest rates and give loans.

APPENDIX I

L A W S O F K E N Y A

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THE KENYA POST OFFICE SAVINGS BANK ACT

CHAPTER 493B

Revised Edition 1978
Printed and Published by the Government
Printer, Nairobi

CHAPTER 493B

THE KENYA POST OFFICE SAVINGS BANK ACT

Arrangement of Sections

Section

1-Short title.

2-Interpretation.

3-Establishment of the Bank and vesting of assets and liabilities.

4-Functions of the Bank.

5-Appointment of Board of Directors.

6-Appointment of General Manager.

7-Deposits and rapyments.

8-Security of moneys deposited.

9-Interest payable.

10-Expenses.

11-Investment of funds.

12-Accounts.

13-Surplus and deficits.

14-Settlement of disputes.

15-Rules.

16-Secrecy.

CHAPTER 493B

THE KENYA POST OFFICE SAVINGS BANK ACT

23 of 1977
L.N.24/1978

Commencement: 1st January, 1978

An Act of Parliament to establish the Kenya Post Office Savings Bank and to encourage and facilitate personal saving.

Short title.

1. This Act may be cited as the Kenya Post Office Savings Bank Act.

Interpretation.

2. In this Act-

"Bank" means the Kenya Post Office Savings Bank established under section 3;

"Board" means the Board of Directors appointed under section 5;

"Corporation" means the Kenya Posts and Telecommunications Corporation established under the Kenya Posts and Telecommunications Corporation Act; Cap. 411.

"expenses" has the meaning assigned to it in section 10;

"former Bank" means the Post Office Savings Bank established under the Post Office Savings Bank Act (now repealed); Cap. 501 (1962).

"revenue" means income of the Bank but does not include moneys received on deposit.

Establishment of the Bank and vesting

3. (1) There is hereby established a savings bank to be known as the Kenya Post Office Savings

Bank which shall replace the former Bank and which shall be a body corporate with perpetual succession and a common seal and shall have power to sue and be sued in its corporate name and to acquire, hold and dispose of movable and immovable property for the purposes of the Bank.

assets and liabilities.

(2) The assets and liabilitities of the former Bank subsiting at the commencement of this Act shall on that day be vested in the Bank.

(3) Savings accounts vested in the Bank under subsection (2) shall be maintained by the Bank subject to any rules made under section 15.

Function of the Bank.

4. It shall be the responsibility of the Bank-

(a) to encourage thrift and provide the means and opportunities for the people of Kenya to save;

(b) to open, maintain or close branches at such places, including at any office of the Corporation, as the Board deems appropriate;

(c) to provide facilities for savings accounts including the accounts vested in the Bank on the commencement of this Act;

(d) to issue such other instruments or facilities for personal saving in such form as it may from time to time deem to be appropriate and desirable in furtherance of the objects of this Act;

(e) to invest any surplus funds in accordance with section 11;

(f) to cover the expenses of its operation with revenue earned from its investments taking one year with another.

nt of .

5. (1) The Bank shall be under the control of a Board of Directors which shall, subject to the direction of the Minister, take such steps as may be necessary and desirable for the proper management of the Bank and for the promotion of the objects and purposes of this Act.

(2) The Board shall consist of-

(a) the Permanent Secretary to the Treasury who shall be the chairman;

(b) the Managing Director of the Corporation;

(c) a public officer employed by the Treasury appointed by the Minister;

(d) three other members appointed by the Minister who shall not be employees of the Government.

(3) A quorum for any meeting of the Board shall be three:

Provided that no meeting of the Board shall be held or continued notwithstanding that there is a quorum unless either the Permanent Secretary to the Treasury or the public officer appointed under paragraph (c) of subsection (2) is present.

Appointment of General Manager.

6.(1) The Board shall appoint a General Manager who shall be responsible for the implementation of the policy and savings programmes of the Bank as laid down by the Board from time to time.

(2) The General Manager shall attend meetings of the Board.

(3) The General Manager may with the consent of the Board employ such persons as may be necessary for the execution of this Act.

(4) Employees of the Bank shall be engaged on such terms of service as the Board and the Treasury may approve:

Provided that the Bank may arrange with the Corporation that employees of the Corporation shall undertake duties on behalf of the Bank and the Corporation shall be reimbursed in accordance with section 10.

Deposits and repayments.

7. Deposits of money to be paid into the Bank whether paid into a savings account or in respect of any other savings facility issued by the Bank from time to time shall be received and repaid under such conditions as amy be prescribed in accordance with rules made by the Board under section 15.

Security of moneys deposited.

8.(1) The repayment of all moneys deposited in the Bank together with interest thereon is hereby guaranteed by the Government and accordingly if at any time the assets of the Bank are insufficient to pay the cutstanding lawful claim of any depositor, the deficiency shall be charged upon and paid out of the Consolidated Fund.

(2) (Spent)

Interest payable.

9. Interest shall be payable on savings deposits and on such other savings instruments as may be issued by the Bank from time time in accordance with rules made by the Board under section 15.

Expenses.

10. (1) All expenses incurred in the execution of this Act shall be met from the revenue of the Bank.

(2) For the purposes of this Act,

"expenses" means the cost of any work or service done by or in connection with the Bank, including such sum on account of administrative and other overhead expenses incurred by the Corporation as may, with the approval of the Permanent Secretary to the Treasury, be reasonably assigned to that work or service.

Investment of funds.

11. (1) Except in so far as any sums may be prescribed by the Board to be kept in hand for the general purposes of the Bank, the Board shall ensure that any surplus of cash in the Bank shall be invested in inerest-bearing securities or be employed at interest as the Board may direct.

(2) Any sums of money that may from time to time be required for the repayment of any deposits or for the payment of interest thereon or expenses incurred in the execution of this Act may be raised by the sale of the whole or a part of such securities:

Provided that any sums of money which may be required for such purposes may, with the approval of the Minister, be advanced to the Bank by the Treasury until they can be raised by the sale of such securities and such advances shall bear

interest at the rate of interest from time to time payable to depositors.

(3) Any advances made in pursuance of the proviso to subsection (2) shall be charged upon and paid out of the Consolidated Fund and every sum repaid on account of such advance shall be forthwith paid into the exchequer account.

Accounts.

12. (1) Annual accounts of the revenue and expenditure of the Bank for each year ending on the 31st December, together with a statement of the assets and liabilities of the Bank, shall, after being audited and certified by the Controller and Auditor-General, be laid by the Minister before the National Assembly as soon as possible after the close of each year and shall thereafter without delay be published in the Gazette.

(2) The annual accounts shall include a statement of monies received and repaid by the Bank seprately for each savings facility, including a statement of the amount of interest credited to each facilty.

Surplus and deficits.

13. (1 Without prejudice to paragraph (f) of section 4, if in any year revenue of the Bank is insufficient to defray the interest due to depositors

and all expenses under this Act, such deficiency shall be charged upon and paid out of the Consolidated Fund.

(2) If in any year the revenue of the Bank shall be more than sufficient to defray the interest due to depositors and all expenses under this Act, then the Minister may direct the transf of the surplus or any portion thereof to the Consolidated Fund:

Provided that no such transfer shall be made unless the assets of the Bank will thereafter exceed the liabilities by not less than fifteen per centum of the liabilities to depositors.

Settlement of disputes.

14. If any dispute shall arise between the Bar and any individual depositor therein, or any executor, administrator or next-of-kin of a depositor, or any creditor or assignee of a depositor who may become bankrupt or insolvent, or any person claiming to be such an executor, administrator, next-of-kin, creditor or assignee, or to be entitled to any money deposited in the Bank, then the matter in dispute shall be referred to an arbitrator to be appointed by the Minister, and any award, order or determination of or by such arbitrator shall be final and

binding on all parties to the arbitration.

15. (1) The Board may make rules for the management and regulation of the Bank.

Rules

(2) In particular and without prejudice to the generality of the foregoing, such rules may-

(a) prescribe the terms under which deposits will be accepted;

(b) prescribe the limits of deposits acceptable under various terms;

(c) prescribe the rates of interest payable on deposits accepted under various terms and how such interest will be payable;

(d) prescribe procedures for making and withdrawing deposits together with any interest thereon;

(e) prescribe the times at which deposit books shall be returned to the Bank by depositors;

(f) regulate deposits and withdrawals by minors, guardians, trustees, friendly societies, charitable bodies or any other bodies of persons of whatsoever description;

(g) prescribe procedures for dealing with deposits of deceased, insane or otherwise incapacitated persons.

16. (1) No person appointed to carry this Act into effect shall disclose the name of any depositor or the amount which may have been deposited or withdrawn by any depositor except in due course of law or to such person or persons as may be appointed to assist in carrying this Act into operation.

Secrecy.

(2) Any person who contravenes the provisions of this section shall be guilty of an offence and liable to a fine not exceeding five thousand shillings.

17. (spent)

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