



THE NEED FOR DEMONETIZATION

By

Sheila M'Mbijjewe

Deputy Governor

Central Bank of Kenya

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Outline



1. Introduction
2. Global Experience with Demonetisation
3. Kenya's Experience
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Introduction

Definition:

- Demonetization refers to the act of stripping a currency unit of its status as legal tender.
- It occurs whenever there is a change of national currency in which the current form (forms) of money is (are) pulled from circulation and retired, often to be replaced with new notes or coins.
- Sometimes, a country can completely replace the old currency with new currency.



Introduction

Reasons for demonetising:

- To introduce new national or regional currency
- To eliminate counterfeit currency
- To combat illicit financial flows

WHY DEMONETISATION??



Global Experience with Demonetisation



1982

Ghana demonetised the 50 Cedi currency notes to crackdown on corruption, tax evasion and money laundering.

2002

countries in the European Union adopted the Euro currency, and demonetised the old national currencies

2015

Philippines replaced all currency notes with new ones to curb illicit and counterfeit currency

2016

India decided to demonetise its two highest currency denominations of 500 and 1,000 rupee notes

Global Experience with Demonetisation

Successful demonetisations were associated with:

- Proper preparations to avoid cases of cash shortages and other disruptions
- A clear identification of the likely implications of the initiative on different sectors
- A gradual withdrawal of the targeted currency denomination in order to preserve macroeconomic stability
- Involvement of stakeholders from the onset, and an effective communication strategy to avoid any disruption caused by panic by the public
- **Countries that faced challenges in their demonetisation processes:**
 - Nigeria in 1984
 - Myanmar in 1987
 - Soviet Union in 1991
 - North Korea in 2010
 - India 2016.



Global Experience with Demonetisation



India's Case:

- In November 2016, Prime Minister Narendra Modi announced demonetisation without any prior notice, public planning and debate
- The demonetisation involved the two largest denomination notes 500 and 1000 rupees
- Aimed at:
 - Eradicating counterfeit currency
 - Fighting tax evasion
 - Eliminating 'black money' obtained from money laundering
 - Curb financing of terrorist activities
- The proportion of cash in circulation affected by the initiative was 86 percent in India, equivalent to 12 percent of GDP



Global Experience with Demonetisation



Lessons from India's Case:

- A larger number of households in India relied more on cash for their everyday transactions at the time of the demonetisation, and were therefore vulnerable to any shortages of cash
- The unplanned demonetisation resulted in complaints by both the public and members of parliament, and the process was therefore marred with panic and disruptions.
- Panic and long queues in banking halls necessitated by the urgency to replace the affected notes with the new ones.
- Significant amount of withdrawn bank notes created a shock on all market transactions.
- Trade slowed down due to the shortages of cash and disruptions in the movement of goods and people across the country.

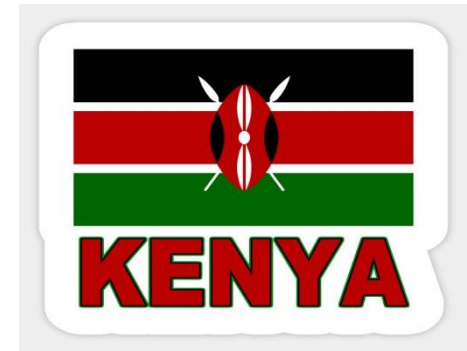


Kenya's Experience



Background:

- The Central Bank of Kenya (CBK) announced, through a Special Gazette Notice No. 4849 dated May 31, 2019, that the older 1000 Shillings notes would cease to be legal tender on October 1, 2019.
- June 1, 2019, President Uhuru Kenyatta unveiled the new generation banknotes of the Republic of Kenya, in line with the requirements of Article 231 (2) of the 2010 Constitution of Kenya.
- Prior to the president's announcement, all the relevant institutions, were involved in the planning of the process in line with the provisions of the Constitution and CBK Act, and on a need to know basis.

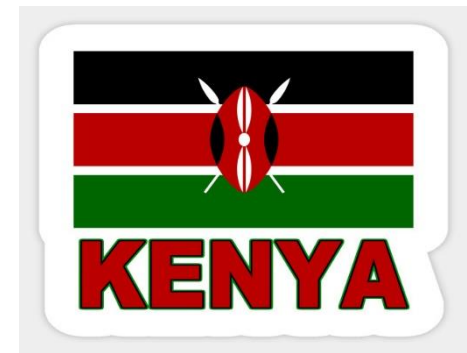


Kenya's Experience



Background:

- Reasons necessitating the demonetisation were:
 - Increased concerns with regard to illicit financial flows (IFF)
 - Emergence of counterfeits
- The percentage of the old 1000 Shilling notes in total currency in circulation at the beginning of June 2019 was 80.3 percent



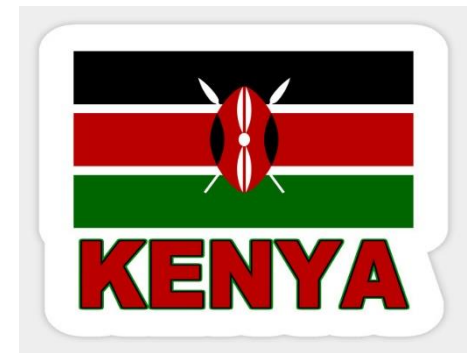
Kenya's Experience



Background:

- Prior demonetisation examples in Kenya:

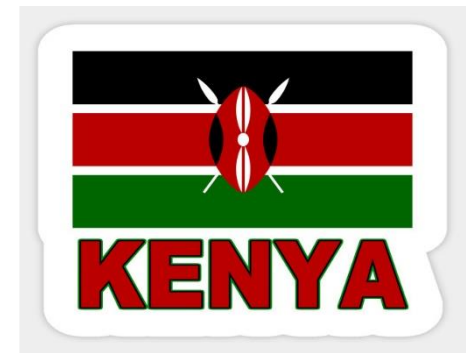
Year	Activity
1966	The East African Currency Board (EACB) notes were demonetised through Legal Notice 253/66 and ceased to be legal tender one year later.
1974	The 100 Shillings note was demonetised through Legal Notice 307/74
2010	5cent, 10cent, 25cent, and 2 Shillings were demonetised through Gazette Notice 6508/10 in June 2010
	The 5 Shillings note was demonetised vide Gazette Notice 9111/10 in July 2010



Kenya's Experience: Demonetisation success factors



- 1) Gradual demonetisation process**
- 2) Adequate time to address logistics**
- 3) Provision and maintenance of a wide availability of the new currency**
- 4) Strong Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework**
- 5) Collaborative approach with other official entities was adopted to buttress the strategy**
- 6) Communication - often and clear**

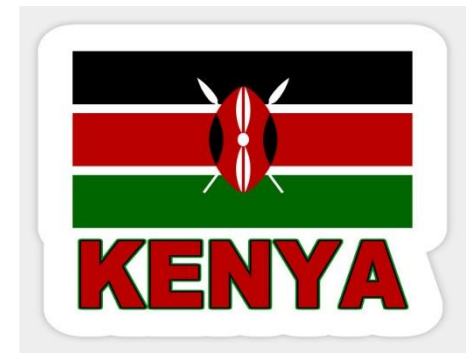


Kenya's Experience: Demonetisation success factors



1) Gradual demonetisation process:

- The critical consideration was to balance the objective of addressing illicit financial flows and counterfeits while ensuring that the process was not disruptive to the public and the economy.
- Therefore, a gradual approach of over four months was preferred over an abrupt shock and awe approach

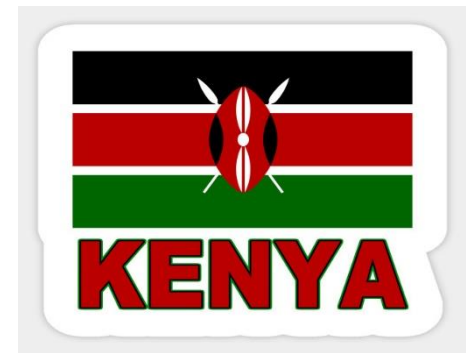


Kenya's Experience: Demonetisation success factors



2) Adequate time to address logistics:

- CBK with support from the banking sector and other stakeholders traversed the country (*from Nairobi to Lunga Lunga, Kisumu to Garissa, Wajir to Kakuma*) engaging all Kenyans.
- Engagement took place in market places, barazas, streets, and bank branches.
- A multi-channel campaign was also executed:
 - over 15,000 advertisements
 - coverage in social media, television, newspapers, and over 80 mainstream and vernacular radio stations

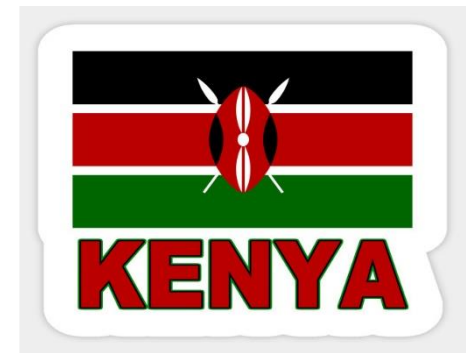


Kenya's Experience: Demonetisation success factors



3) Provision and maintenance of a wide availability of the new currency.

- CBK worked closely with banks to ensure a smooth rolling out of new currency across the country and its availability.
- CBK's supported in recalibrating the verification and note-counting machines, ATMs, and parking payment machines so as handle the new notes.
- Emphasis on distant sections of the country (northern and southern parts) due to their reliance on cash.
- A robust feedback mechanism including some strategic surveys was also deployed to identify any emerging concerns and facilitate their resolution.

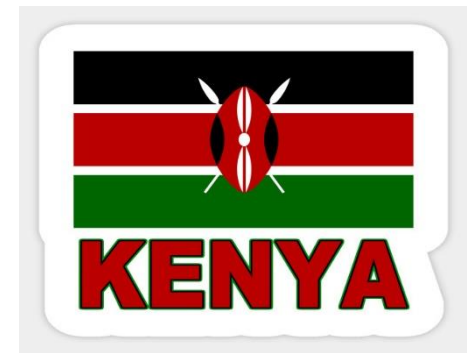


Kenya's Experience: Demonetisation success factors



4) Strong Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework:

- The aim was to ensure that illicit funds were filtered out, and not exchanged or enter the financial system.
- Reporting and monitoring was scaled up, with positive results
- During this period CBK conducted 15 targeted inspections on financial institutions, and over 3,000 Suspicious Transaction Reports (STRs) were reported for further investigation.

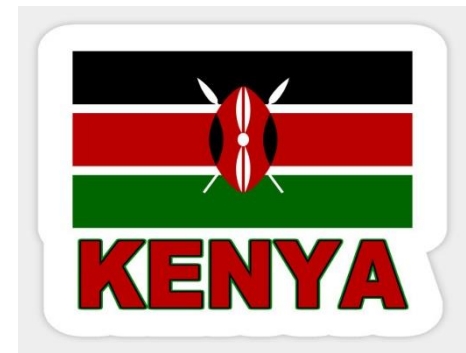


Kenya's Experience



5) Collaborative approach with other official entities was adopted to buttress the strategy:

- Tactic involved “*overwhelming the enemy by attacking on all flanks at once*”.
- Investigative agencies were brought on board to examine the available information for evidence of crimes.
- Other central banks were also roped in to ensure that escape of counterfeiters and perpetrators of illicit funds through those jurisdictions was thwarted.

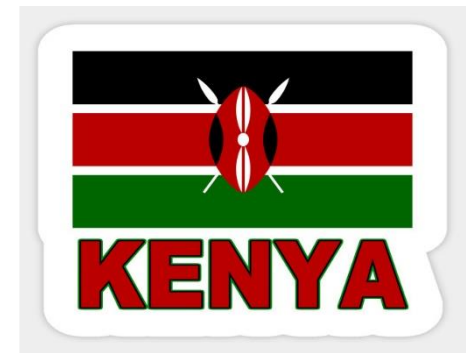


Kenya's Experience



Summary of the demonetisation process:

- **From a total of 217,047,000 pieces of the KSh.1,000 notes on June 1, CBK had received 209,661,000 pieces at the end of the demonetisation period on September 30.**
 - Thus, 7,386,000 pieces of the older KSh.1,000 notes, worth KSh.7.386 billion, were rendered worthless at the end of demonetisation.
 - A significant proportion of this amount would represent cash that was held by individuals who were unable or unwilling to subject themselves to the robust checks in place.
- **The demonetisation exercise had little impact on the economy—inflation, exchange rate, etc.**
 - There was little evidence of a rush to purchase high-value assets in cash



Way Forward



- We continue to endeavour to build a Kenyan economy devoid of corruption.
- Progress towards using less cash for transactions, as we increasingly embrace the readily available mobile and electronic channels
- Demonetisation marks a single step in the fight against illicit finance and corruption more generally.





THANK YOU