

CENTRAL BANK OF KENYA



REMARKS

by

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on

**“THE STRATEGIC DIRECTIONS AND REGULATORY SUPPORT
FOR A STRONG MFI SECTOR”**

at the

**“STANDARD CHARTERED & GRAMEEN FOUNDATION,
MICROFINANCE CONFERENCE, ON OPTIMAL FINANCING
STRATEGIES FOR MFIs IN A CHANGING ENVIRONMENT”**

*Intercontinental Hotel, Nairobi
February 19, 2010*

Mr. Richard Etemesi, Chief Executive Officer, Standard Chartered Bank;

**Mr. Norman Buckham, Regional Chief Executive Officer for Africa,
Grameen Foundation;**

Ms. Lydia Koros, Chair of AMFI;

Microfinance Industry Practitioners here present;

Distinguished Guests;

Ladies and Gentlemen;

I am very pleased to have the opportunity to speak on *'The Strategic Directions and Regulatory Support for A Strong MFI Sector'*. Before I make a few remarks, let me take this opportunity to thank Standard Chartered Bank and Grameen Foundation for hosting this training for MFIs in East Africa with the aim of creating a better understanding of different levels of financial actors available to expand financial services and operations. The Central Bank has been in the forefront in cultivating partnerships and linkages between commercial banks and microfinance institutions and I am therefore, very grateful for this initiative by Standard Chartered Bank.

Ladies and Gentlemen; The Government of Kenya through Vision 2030 has identified the financial sector as one of the six priority sectors in realizing this vision. The financial sector will be expected to mobilize and channel substantial resources required for investment to expand the production potential and open up the economy. Accordingly, it is envisaged that the microfinance sub-sector is positioning itself to enhance financial reach, deepening and inclusion as a major player from micro to meso levels of the economy and to be part of this pivotal development.

The Microfinance Act was in this regard operationalized in May 2008. The Act empowered the Central Bank of Kenya (CBK) to license and supervise deposit taking microfinance institutions. These are classified into two genres, nationwide and community based. The nationwide institutions are expected to maintain a minimum capital of Ksh.60 million (USD 0.8m) and can roll out their operations across the country. The community based institutions' minimum capital requirement is Ksh.20 million (USD 0.3m) and are expected to operate in defined administrative/geographical areas. So far, the Central

Bank has licensed Faulu Kenya DTM to conduct nationwide deposit taking microfinance business. The Kenya Women Finance Trust Deposit Taking Microfinance Limited (KWFT DTM) has been granted an approval in principle. Kenya Women Finance Trust DTM will be granted a license once a few pre-licensing requirements are fulfilled. Eight other license applications are at various stages of review and appraisal by the Central Bank. Since 2008 the Bank has also approved thirty-three business names which is the first step in the licensing process.

Ladies and Gentlemen: While noting the progress so far in licensing one DTM, the Central Bank is concerned about the slow uptake of this new avenue for MFIs to be mainstreamed into the financial sector. We are therefore engaging the microfinance industry through their umbrella body the Association of Microfinance Institutions (AMFI). This engagement aims at teasing out the bottlenecks for MFIs in transforming them to a regulated status. Are there bottlenecks in the licensing procedures of CBK? Let us know. Some of the bottlenecks that we have identified so far and which we would like to discuss and arrive at solutions include:-

- High costs associated with roll out of branch networks and ICT infrastructure.
- Restructuring of shareholding of MFIs to comply with shareholding restrictions specified in the Microfinance Act. The Act restricts shareholding by an individual/entity to 25% of the institutions' share capital.
- MFIs are constituted in various forms including NGOs and Trusts. Under the Act, transforming MFIs are required to be incorporated as limited liability companies registered under the Companies Act. The incorporation process takes considerable time and expense and may deter some MFIs from applying for a DTM license.
- Anecdotal evidence also seems to suggest a “**wait and see**” approach by a number of MFIs as they assess the experience and performance of the pioneer regulated DTMs.

- Perhaps also information of how the agency banking model will work may provide an incentive to speed up. I have seen letters objecting to this introduction but it is an advantage to MFIs.
- But is there a preference to remain non-deposit taking since the Treasury has not developed prudential regulations and licensing requirements for non-deposit taking MFIs?

Ladies and Gentlemen: Regulation brings with it the overarching benefit of instilling public confidence in MFIs. This is a necessary prerequisite for moving the microfinance sector to new frontiers of financial reach through mobilization of public deposits. As you are aware, the traditional sources of donor funds for microfinance institutions are drying up and cannot be relied on to move the sector to the next level. The movement towards regulation of other financial institutions is also gaining momentum. Towards this end, the Government of Kenya is operationalising the SACCOs Regulatory Authority (SASRA) to regulate SACCOs with front office operations.

These levels and layers of financial market operations and services show that there is a market niche for all actors and MFIs should be entrenched in their niche market. On its part the Central Bank will endeavor to address the bottlenecks that MFIs are experiencing in moving into the regulatory fold. Allow me to mention a few initiatives the Central Bank will undertake:-

- The Microfinance Act was amended with effect from 1st January 2010 to facilitate credit information sharing by DTMs. We are in the process of developing information capital. Credit information sharing is critical in building the information capital of players in the informal and small and medium enterprise segments. These market niches are the bedrock of the MFI sector.
- Review of the Microfinance Act and Regulations to make them more responsive to the needs of the microfinance industry particularly with regard to the cost of delivery channels.
- Propose amendments to the Microfinance Act to facilitate the use of the agent model by DTMs.

- Build Central Bank's capacity to regulate and supervise MFIs. It is noteworthy that as part of harmonization initiatives under the East African Community (EAC), we are engaging with the sister central banks of Uganda, Tanzania, Rwanda and Burundi on ways of enhancing and harmonizing the microfinance legal and regulatory framework in the EAC.
- Partnership with the microfinance industry: For example, the Central Bank together with representatives from Faulu Kenya, Kenya Women Finance Trust and the Association of Microfinance Institutions jointly attended a Financial Inclusion Advisers' Program convened by the Malaysian Central Bank and the Japanese International Co-operation Agency (JICA). This program brought together players from various countries to share experiences on successful financial inclusion models. Partnerships such as this will enable CBK and the microfinance industry to develop policies, procedures, as well as innovative solutions to the benefit of the financially underserved and unserved segments of the populace.

The Central Bank is keen to draw on recommendations that you shall generate from this forum that can facilitate the growth of the microfinance sector.

Before I conclude, Ladies and Gentlemen, let me once again take this opportunity to reaffirm that the Central Bank of Kenya remains committed to the development of the microfinance industry. We do not have all the solutions; but we would definitely like to cultivate partnership with the industry as well as the experienced international players to create an enabling environment. This enabling environment will support building strong institutions that define appropriate incentives (and penalties) but above all, appropriate incentives (and penalties) encourage prudent behavior. This is our objective at the Central Bank of Kenya.

I wish you fruitful deliberations for the remainder of the workshop.

Thank You!