



**CENTRAL BANK OF KENYA**

**LAUNCH OF THE KENYA BANKERS ASSOCIATION SUSTAINABLE FINANCE  
INITIATIVE GUIDING PRINCIPLES AND E-LEARNING PLATFORM  
VENUE: HOTEL INTERCONTINENTAL, NAIROBI**

**Keynote Address by Dr. Patrick Njoroge  
Governor, Central Bank of Kenya**

**1<sup>st</sup> December, 2015**

*(As Prepared for Delivery)*

**Mr. Joshua Oigara, Chairman, KBA,**

**Mr. Habil Olaka, Chief Executive Officer, KBA**

**Members of the KBA Governing Council**

**Chief Executive Officers and Senior Management of Commercial Banks,**

**Distinguished Guests,**

**Ladies and Gentlemen,**

I am pleased to join you at this launch of the KBA Sustainable Finance Initiative (SFI) Guiding Principles and E-Learning Platform. I thank KBA for inviting me to witness this auspicious occasion.

Today's launch of KBA's Sustainable Finance Initiative Guiding Principles (the Principles) marks a significant milestone in KBA's contribution towards the achievement

of long-term sustainable development, not only in Kenya but also in the regional jurisdictions where KBA member institutions are present.

In Kenya, sustainability, which refers to the integration of social and environmental considerations in business decisions is a recent development. KBA's Working Paper on Sustainability in the Financial Sector in Kenya rightly observes that so far, sustainability initiatives in the Kenyan financial sector have been diverse and uncoordinated, which makes them unlikely to gain much impetus across the sector. Yet the growing involvement of banks and other institutions in financing the agricultural, manufacturing, housing, infrastructural, energy and extractive sectors, which have significant environmental and social impact, makes it necessary to have a coordinated approach on sustainability to facilitate its incorporation into local banking practice.

As the first formal guidance to the banking sector, the Principles constitute a crucial benchmark against which member institutions may evaluate their integration of environmental and social governance concerns in their lending and investment activities. The Principles demonstrate the banking industry's commitment to the cause of sustainable development, and the sector's recognition of sustainability as a fiduciary duty. I congratulate KBA and its partners for this initiative and for making a voluntary choice to promote sustainability in our market.

The SFI E-Learning Platform being launched today is also a noble initiative. As a structured capacity building program, the platform should go a long way towards sensitizing and inculcating environmental and social awareness in the banking sector's human resource base. It should also empower participants with the training required to identify environmental and social governance risks and to devise solutions to current and emerging sustainability challenges that are relevant to the local context.

**Ladies and Gentlemen:** I would like to briefly share some reflections on the topic of sustainability as it pertains to the financial sector in general, and the banking sector in particular. The business case for sustainability is predicated on survival: doing business sustainably today ensures that we will be around to do business tomorrow. Accordingly, it makes economic sense for financial institutions to adopt business models aligned to the needs of the wider society so as to facilitate sustainable value-creation over the long-term.

Ladies and gentlemen, how is this alignment to be attained? As industry players, you certainly have sound ideas on this, as can be seen from the Principles, but allow me to share five broad themes in this regard.

First, **Adoption of a long-term orientation in business decisions:** In Kenya and elsewhere, by virtue of its intermediation function, the banking sector holds a high profile in the economy, playing a significant role in mobilizing savings towards productive investments. In this capacity, the banking sector supports critical sectors embodying long-term national and social aspirations such as infrastructure, manufacturing, housing, health, education and agriculture. On the other hand, a disproportionate focus on short-term performance (as epitomized by the emphasis on quarterly, half-yearly and annual results), sub-optimizes value creation at an aggregate economic level, and is a major impediment to long-term sustainability. While short-term performance does play a role in ensuring business remains on track to realize business targets, greater emphasis on the banking sector's long-term contributions to critical socio-economic indicators would better bring out the sector's role in the creation of tangible value.

Second, **Affordable and competitive financial service delivery** is an additional determinant of sustainability. The cost of Banking services in Kenya, which largely refers to interest rate spreads and other fees, have historically been perceived as high for the average consumer. This has fuelled perceptions of exclusivity, that banking services are a

preserve of the well-off, with those not able to meet the high charges being largely alienated. Indeed, the 3 National Finaccess surveys conducted so far revealed that high costs of using banking services are a key deterrent to access to financial services for a significant portion of the potential market. This is a cause for concern for the banking sector. To expand the critical mass of banking service consumers, there is need to lower the levels of interest rates and fees through innovative service delivery, to boost access to capital and promote investment.

Third, the quest for incorporating sustainability into local banking practice ought to also encompass **fair treatment of customers**, the *raison d'être* for the existence of business. By fairness, we mean the observance of equity in bank-customer relationships, particularly with regard to information disclosure, contractual arrangements and responsiveness to customer grievances. In this regard, I regret to note the increasingly high number of complaints and grievances CBK has been receiving in recent months from customers seeking regulatory intervention after their institutions have reportedly failed to resolve complaints to their satisfaction. The trend is untenable in the long-run, and I challenge institutions to improve on this aspect of service delivery.

Fourth, **Comprehensive risk management** is one of the three priority areas identified in the current initiative. As the overarching goal of risk management is to mitigate risks and ensure a business continues in operation, the inclusion of environmental and social governance concerns by the banking sector is a significant step towards enhancing the scope of the risk management function. The launch of the Principles calls for gradual integration of environmental, social and governance risks into mainstream risk assessment frameworks for regular and consistent application in assessing finance proposals. Going forward, institutions participating in projects will need to strike an appropriate balance, as shall be informed by experience, between traditional business risks and social and environmental risks.

Finally, **Sound ethics and governance**. To a significant extent, sustainability is also a function of sound ethical and governance frameworks that foster integrity in the provision of services and facilitates consideration of the interests of stakeholders that are affected by the activities of financial institutions. I am glad to note that KBA's SFI Principles duly recognise good governance as a foundation for their implementation, and the banking sector needs to strengthen policies and practices in this regard.

However, I would like to caution that even the best-designed codes, if not internalized and upheld, cannot guarantee integrity. The continued high prevalence of fraud and isolated instances of governance failures recently witnessed in a minority of banking institutions call into question the ethical standards prevailing in sections of the industry, undermine trust, and do not augur well for the sector's long-term sustainability. While the Central Bank is committed to doing its utmost in addressing this challenge, it is not one which the Bank can address on its own. I therefore appeal for collaboration from all players in exploring solutions to this incipient threat to banking sector stability.

**Ladies and Gentlemen:** As I conclude my remarks, today's launch of KBA's Principles and e-learning Platform comes at an opportune time when Kenya has ambitious plans to transition to a green economy, and when the general awareness on environmental and social issues is rising. The expected growth in environmentally beneficial projects and initiatives (which include clean technology, eco-friendly infrastructure, renewable energy, waste-recycling projects, etc), shall bring with it significant business opportunities for all, which I encourage institutions to tap into. To those who will actually apply the Principles and benefit from the e-learning platform, I urge you to utilize both resources to the utmost in enhancing your stewardship capacity. CBK stands ready to play a catalytic role in facilitating the industry's contributions towards the realization of sustainable development.

With these remarks, **Ladies and Gentlemen**, it is my distinct honour to officially launch the KBA Sustainable Finance Initiative Guiding Principles and E-Learning Platform.

**Thank You.**