CENTRAL BANK OF KENYA

Address by

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at the

COCKTAIL TO USHER IN THE EASTERN AND SOUTHERN AFRICA ANTI-MONEY LAUNDERING GROUP (ESAAMLG) 16th TASKFORCE MEETING OF SENIOR OFFICIALS

WHITESANDS BEACH RESORT AND SPA, MOMBASA

Monday, August 18th, 2008

Mr. Serwalo Tumelo, Permanent Secretary, Ministry of Finance and Development Planning, Botswana and Chairman of the Task Force of Senior Officials;

Permanent Secretaries here present;
Dr. Eliawony Kisanga, Executive Secretary, ESAAMLG;
Representatives of Co-operating Nations and Organisations;
Members of the ESAAMLG Taskforce of Senior Officials;
Distinguished Guests;
Ladies and Gentlemen:

It is my joy and pleasure to be here this evening on the occasion of the official opening of the 16th ESAAMLG Taskforce of Senior Officials Meeting. I must start by extending a very warm welcome to all the delegates here present. It is indeed an honour for Kenya to be hosting this important meeting. We appreciate the hosting of the ESAAMLG Meeting in Kenya even after the period of turbulence that we underwent at the beginning of the year. However, this is now behind us and we are back in business. As the Swahili say, "kuteleza sio kuanguka" (To slip is not to fall).

Anti Money Laundering and Combating the Financing of Terrorism are indeed current buzz words in the global financial circles. Forums such as this therefore serve as useful avenues of sharing various country experiences. For the case of Kenya, the timing of this meeting could not be more opportune. The Proceeds of Crime and Anti-Money Laundering Bill, 2008 is currently under consideration by our Parliament. We remain cognisant that Kenya's vision of being a regional trade and financial services hub is founded on the enactment of an enabling legal and regulatory framework. A sound Anti-Money Laundering legal and regulatory regime is therefore a critical plank to this aspiration.

Ladies and Gentlemen: The region is vulnerable to money laundering particularly given its mainly cash based economies. This is further aggravated by porous borders and weak institutions for enforcements. Though much has been done in the recent past by organizations such as ESAAMLG, more remains to be done.

The challenges we face are multifaceted, but as the region has demonstrated through the support member countries have given to ESAAMLG, we remain resolutely committed to fighting the double evils of money laundering and financing of terrorism.

Allow me for the next few minutes to wear my Central Bankers' hat as a regulator of the banking sector. From where I sit, I am acutely aware, that money laundering is a threat to both the integrity and stability of the banking sector and even the forex bureaus themselves. Further, with increased globalisation, our banking systems are increasingly under close scrutiny by our international trading partners particularly with regard to anti money laundering legal and regulatory frameworks.

Ladies and Gentlemen: In Kenya, as I have alluded, we are in the process of enacting a comprehensive Anti Money Laundering legislation. However, this is not to say that there are no measures in place at the moment to deter money laundering. The Central Bank, as both regulator and supervisor of banking institutions, has played a key role in ensuring that systems to combat abuse of the banking sector by criminal elements are in place.

In 2000, the Central Bank of Kenya issued guidelines to all commercial banks pursuant to the Banking Act on ''Know Your Customer'' and ''Customer Due Diligence'' procedures. The guidelines vest responsibility on the Board of Directors and Management of banking institutions to:-

- Establish appropriate policies and procedures to ensure the effective prevention, detection and control of possible money laundering activities and terrorism financing.

- Train staff in the prevention, detection and control of possible money laundering activities and terrorism financing.

- Ensure adequate identification of customers, their source of funds and the use of the said funds.

The guidelines were reissued in 2006 following a review that took into account international developments and experiences of financial institutions in implementing the 2000 guidelines. Key changes included:-

- Strengthening of customer due diligence procedures.

- Providing additional guidance on identification of suspicious transactions by commercial banks.

- Introduction of guidance on customer due diligence procedures for non face to face transactions that have gained increased prominence with the growth in internet and telephone banking.

We know that the rapidly changing technologies and the introduction of new financial products remains a major challenge which requires financial institutions and regulatory bodies to constantly remain vigilant of possible abuse of new products by criminals. The Central Bank continues to monitor adherence to the existing guidelines through its' surveillance mechanisms and adopting them to the changing environment.

Kenyan banks have faced a number of challenges in implementing these guidelines. I am sure that these are challenges also shared in some of the countries represented here. In particular, some customer due diligence requirements have been difficult to implement particularly in rural and even peri-urban areas. For instance, the requirement to verify the physical address of a customer has been a challenge in some instances. As you will appreciate, documents such as utility bills required to prove physical address are non-existent in areas where electricity, telephone, water and other services are yet to be installed. We might call it an urban bias in physical address. This is further complicated in some of our nomadic communities whose physical address is determined by availability of pasture and water.

Given our experience, we would greatly welcome an opportunity for this Group to engage in a discussion of these peculiar challenges. In particular, it would benefit our financial institutions dealing with less sophisticated customers to apply simplified customer due diligence that takes into account the existing circumstances without necessarily compromising the ''Know Your Customer" obligations as required under the Financial Action Task Force (FATF) recommendations. I would therefore urge this Group to look at how a Risk Based Approach reflecting the circumstances in this region can be rolled out. This would benefit financial reach in the country.

The cost of staff training for financial institutions and putting in place the requisite systems for transaction monitoring is also enormous. I am, however, pleased to note that the Kenyan Banking sector has embraced the necessary policies and procedures to deter and detect money laundering.

We are jointly addressing the challenges I have alluded to with the banks, as we seek customised solutions that will not dilute the overarching imperative that banks ''know their customers''. We also hope that lessons from ongoing ESAAMLG research studies on trends and typologies of Money Laundering in the region will serve as useful inputs in addressing some of these challenges.

From a regional perspective, as Central Banks, we continue to engage and share experiences on how we can strengthen our regulatory mechanisms on anti-money laundering and combating the financing of terrorism. Beyond ESAAMLG, this agenda is discussed at regional economic forums that our countries are members of, including the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development and Co-ordination Committee (SADC). We would also, in this regard, welcome assistance to Central Banks as well as other regulatory bodies to enhance their regulatory capacity in anti money laundering and combating the financing of terrorism.

It is my hope that ESAAMLG will expand its co-operation with the regional organizations involved in this area of work so that the work of these organizations can complement each other for the benefit of all countries in the region. I understand that this co-operation already exists and I would like to take this opportunity to encourage its expansion.

It is also important to continue having dialogue between the regions' private and public sectors as we continue driving this common agenda. This will ensure that both the public sector policy makers and private sector implementers move in tandem. Without overemphasising the point, capacity building should be a key pillar of this dialogue. I hope that ESAAMLG will be able to initiate such dialogue at an appropriate time. Those of us in the financial sector stand ready to participate in such an initiative.

At this juncture, it would be important to recognise the ESAAMLG's co-operating nations and organisations for their supportive role in capacity building in the region. I would like in particular to acknowledge Governments of the United States and United Kingdom, the United Nations Office on Drugs and Crime, the World Bank and the IMF. It is my expectation that they shall remain engaged as ESAAMLG continues to spearhead the development of an enabling AML/CFT legal and regulatory framework in the region.

As I wind down my comments, I urge you to take some time to enjoy the beautiful beaches and warm hospitality that Mombasa offers. There is indeed a Swahili saying that translates as ''Getting into Mombasa is easy, the hard part is getting out.'' So if you find yourself wanting to extend your stay here, do not be surprised. Kenya, of course, offers much more including the acclaimed ''seventh wonder'' of the world, the Maasai Mara which is currently experiencing the spectacular annual migration of wildebeest from the Serengeti in Tanzania.

As you embark on your meeting over the next few days, I wish you very fruitful deliberations. Do enjoy the evening and, indeed, your entire stay in Mombasa.

It is now my pleasant and honourable duty to declare the 16th ESAAMLG Task Force of Senior Officials Officially Open.