

CENTRAL BANK OF KENYA



KEYNOTE SPEECH

BY

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to

THE NAKURU BUSINESS ASSOCIATION

*Nakuru
11th June, 2010*

Hon. Lee Kinyanjui, Assistant Minister for Roads and MP for Nakuru Town;

His Worship the Mayor, Councillor John Kitilit;

The Regional Commissioner, Central Rift, Mr. Amos Gathecha;

The District Commissioner, Nakuru, Mr. Kangethe Thuku;

Mr. Boniface K. Muhia, Chairman, Nakuru Business Association;

Mr. Thomas Kaberi, Chief Executive Officer, Nakuru Business Association;

Governing Council Members;

Business Leaders;

Distinguished Guests;

Ladies and Gentlemen:

I am pleased to join Nakuru Business Association in this meeting. I am here today because I was extremely impressed with the areas of interest to the businessmen and women of Nakuru that I was asked to address. This is quite timely with the support the business community was given by the Minister for Finance in the Budget presentation yesterday. Nakuru being centrally located in Kenya has the potential of achieving a higher growth rate than other towns based on its locational advantage.

I was asked to talk to you today on broadly two topical issues; Nakuru as a financial actor and the upcoming currency centre in Nakuru, that will contribute to ease of doing business. But I will want to pick a few important additions from the budget policies read yesterday.

Ladies and Gentlemen: Under Vision 2030, Kenya aspires to become an international financial hub. In this regard, I am aware that efforts are currently underway towards the realisation of this objective. On the same note, it may be a high time to consider establishing smaller financial enclaves within Kenya as we build towards the aspired international status. We do know that expanding cities and towns increases productivity growth and overall hinterland growth. As a result, the thought by Nakuru Business Association of making Nakuru a financially vibrant town is not misplaced. What you need to do is to concretize your ideas into a plan of course drawn from the Vision 2030, and to expand the city to provide a diversified economy.

To assist in this line, it is necessary to know what the prerequisites of a strong financial town are; several factors have been cited as being prerequisites, however, the paramount prerequisites include:-

- Financial infrastructure: Banks, Insurance, brokerage firms, outlets, agents etc;
- Adequate human resource skills and a flexible labour market;
- A transparent and effective regulatory framework;
- A critical mass of vertically integrated financial institutions in one location operating in a conducive business environment; and
- Observing rules of the game.

As Nakuru aspires to become a vibrant financial town, you will need to assess whether the prerequisites indicated above exist and if not what steps need to be taken to put them in place. All the prerequisites can only be put in place with a unity of purpose among all stakeholders.

Ladies and Gentlemen: The linkage of any form of business and banking need not be overemphasized. Business and banking complement each other. The banks' role of financial intermediation takes place through various forms. As banks allocate resources (mainly deposits), they focus on productive sectors of the economy whose potential to default is minimal. This demonstrates the fact that economic growth can only be achieved through efficient resource mobilization and allocation in the economy. Banks are bestowed with the ability to undertake this function. They collate savings and deposits from micro-savers to investors. They allow access to finance where their customers accumulate capital through savings and affordable credit. However, resource mobilization and allocation is not an end in themselves. Economic growth can only be realised if businesses efficiently utilise the resource towards the desired results. The financial sector is therefore in place to encourage a cycle of savings and investment.

Credit risks are declining as witnessed by declining non-performing loans in banks. We need to take advantage of this. Over the last ten years, the trend has

drastically changed with a continued drop in the level of non-performing loans from as high as 38 percent of gross advances in 2002 to 7 percent as at March 2010. This is an indication of improved resource management in Kenyan businesses and perhaps the efficiency of screening and monitoring the role the banks have invested in.

Ladies and Gentlemen: Over the last 5 years, Kenya has witnessed significant growth in the outreach of Kenyan banks. The number of bank branches have increased from 534 in 2005 to 996 in 2009; a growth of 87 percent. The increase is mainly attributed to intense competition among banks and their desire to venture into new territories which are deemed unsaturated. Banks have also seen the benefit of banking the unbanked and removing barriers to entry. Nakuru has greatly benefited from this expansion. Over the period, the number of bank branches in Nakuru has increased from 18 in 2006 to 27 in 2009 but even more in its hinterland. This increase explains the prevailing business potential in Nakuru town and its environs.

The increase in the number of banks in Nakuru is in line with Central Bank's desire of promoting financial inclusion. As per the Financial Access Survey of June 2009, only 23 percent of the Kenyan population aged above 18 years is banked. This state of affairs is not acceptable and we expect the level to increase significantly by the year 2012 given the various efforts Central Bank and its partners have put in.

These include:-

- The licensing of deposit taking microfinance institutions, whose focus is the lower end of the market, which is concentrated in the rural and peri-urban areas.
- The licensing of credit reference bureaus, which provides an opportunity for individuals and businesses to rely on their information capital as an alternative form of collateral unlike the traditional physical collateral, to secure credit facilities from banks.

- Approval for banks to engage third parties to provide certain banking services. We believe that this will further increase the outreach of banks to most corners of the country.
- Flexible space for banks to roll out very incentivised products using the available technological platforms.
- Currency centres to reduce costs of doing business.

Ladies and Gentlemen: The increase in the number of banks in Nakuru is an indication that the town is in the process of developing the requisite infrastructure necessary to support the activities of the banks. Banks have probably been attracted to Nakuru by its uniqueness of being both an agricultural, tourism and industrial town. Institutions of higher learning have also not been left behind in realizing the potential of Nakuru to create adequate employment opportunities for their graduates. Partnerships between businesses and such institutions of learning is one of the surest ways of developing relevant professionals to contribute to the town's growth.

Nakuru is thus ready for a vibrant business centre and to serve its hinterland.

Ladies and Gentlemen: Allow me now to move on to my second point which is the upcoming currency centre in Nakuru. The cash based nature of our economy cannot be overemphasized. The Central Bank has therefore been reviewing the currency management mechanism to ensure availability of "clean money" at a reasonable cost to Kenyans. The Bank, in conjunction with the Kenya Bankers Association (KBA) has embarked on the establishment of currency centres. These centres are expected to reduce the operational costs incurred by banks in moving cash to and from the existing Central Bank branches. This move is also expected to support the provision of "clean" notes and coins to Kenyans across the country.

In conjunction with KBA, CBK identified Nyeri, Meru and Nakuru as the appropriate towns to pilot currency centres. The Nyeri currency centre is already operational and progress towards establishing the Nakuru currency centre are at

advanced stages. We expect the Nakuru currency centre to commence operations by end of July 2010. This centre will be housed by KCB.

Besides benefitting Nakuru residents by getting clean notes and coins, it is expected that the costs saved by banks from the lower transportation costs will translate to better, cost effective and efficient services to the customers.

I must emphasize that the centres are a joint partnership between the Central Bank and commercial banks via KBA. The centres should therefore not be confused with the Central Bank's operated branches. In the case of currency centers, commercial banks provide the physical infrastructure while CBK provides the necessary human and technical support necessary. In the long run, the CBK will leave currency distribution to be handled by commercial banks.

Finally, let me touch on three issues that featured in the budget and I think they are critical to our discussions today:

- The revamping of investment in infrastructure
 - Complement private investment
 - Public investment to reduce cost of doing business
 - Residue binging constraints
- Empowering the youth to secure a future
- SME support through a revolving fund operated by bank on a 1 to 5 basis: that is, at the minimum this revolving fund will operate on “for each 1 shilling the government brings, banks will contribute 5 shillings”

Ladies and Gentlemen: As I wind down my remarks, I urge all businesses in Nakuru to take advantage of the current trend of falling interest rates to fully exploit the potential of your businesses. The capacity of Kenyan banks to extend credit to all types of businesses has been increased following the increase in the statutory minimum core capital from Ksh.250 million to Ksh.1 billion. The increase took effect from 1st January 2009 and will progressively be increased to Ksh.1 billion by 31st December 2012. The increase was informed by the increasing demand for funding from the banks beyond what they could accommodate based on their capital levels.

I also take this opportunity to urge all of you to exercise your rights while engaging with the banks. You must demand to be charged a fair interest rate commensurate to your businesses risk profile investment proposals. This is the only way we can succeed in reducing the cost of credit and also grow your business. There is no other opportune moment for all businesses including banks to realise that success is sweeter when all players prosper and success begets success.

With these remarks, ladies and gentlemen, it now remains for me to wish all the businessmen and women in Nakuru success in their endeavours towards prosperity of their businesses. Successes of your businesses will directly contribute towards our desired economic growth of becoming a middle income country as envisaged in Vision 2030.

Thank You and God bless you all.